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The failure of Chinese peer-to-peer lending platforms: Finance and politics

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Qing He and Xiaoyang Li

The failure of Chinese
peer-to-peer lending platforms:
Finance and politics



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Qing He and Xiaoyang Li

The failure of Chinese peer-to-peer lending platforms: Finance and politics

Abstract

We investigate the influence of financial and political factors on peer-to-peer (P2P) platform failures in China's online lending market. Using a competing risk model for platform survival, we show that large platforms, platforms with listed firms as large shareholders, and platforms with better information disclosure were less likely to go bankrupt or run off (platform owners abscond with investor funds). More importantly, failing platforms were much less likely to run off in advance of major political events, but more likely to declare bankruptcy or run off after such events. These effects are more pronounced for politically connected platforms, platforms operating in provinces where local officials have close ties with central government, and in provinces with better local financial conditions. Our study highlights the role of political incentives on government regulatory intervention in platform failures.

JEL: G33, G21, G23, P26

Keywords: P2P platform failure; political interference; political connection; financial performance

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1 Introduction

The retail banking innovation known as peer-to-peer (P2P) lending allows individuals to bypass traditional intermediators and raise funds directly from investors. Proponents of P2P claim it reduces information asymmetry, thereby making credit allocation more efficient (Jagtiani and Lemieux, 2019). P2P is also said to foster entrepreneurship and small business development by providing a flexible alternative to traditional banking (Calic and Mosakowski, 2016; Cole et al., 2019).

No country has embraced P2P more wholeheartedly than China. Chinese investors have made ever-widening use of online lending platforms since the first P2P platform launched in 2007. According to the P2P portal Wangdaizhijia (WDZJ.com), the number of P2P platforms had soared to 6,621, facilitating a cumulative total of RMB 8.03 trillion (\$1.209 trillion) in loans by the end of 2018.¹ The Chinese today lead the world in the use of P2P platforms by any measure,² but the growing popularity of P2P lending has a dark side. To date, millions of investors have lost their life savings after founders liquidated the platform or made off with their money. Such malfeasance has heightened official scrutiny of P2P platforms without answering the vital question of what factors lead to platform failure.

Our investigation into this question begins with a survey of the literature on bank failures (Brown and Dinç, 2005; Liu and Ngo, 2014) to help identify financial and political factors that might affect the probability of a P2P platform failure. We also note that political factors seem to exert greater influence on P2P platform failures than in traditional bank failures. If P2P platforms functioned solely as intermediaries, connecting lenders and borrowers in a cost-efficient manner (Cumming et al., 2019), they would simply fulfill their role of supplying information and collecting a fee for doing so. Market panics would be unlikely. Unfortunately, the Chinese government initially took a light regulatory touch, assuming its direct participation in industry development plans would be sufficient to promote rapid development of a healthy P2P lending industry. Instead, this approach allowed P2P platforms to become a breeding ground for risky lending and fraud. Some platforms raised funds by issuing various wealth management products with guaranteed returns (Balyuk and Devydenko, 2019; Li et al., 2020). Others collected money using fake projects to lure investors with the promise of unrealistically high returns. In response to mounting P2P lending risk, the government ultimately cracked down to establish discipline in the P2P lending market.

¹ WDZJ.com is China's leading P2P online lending portal, providing news and data about P2P lending.

² The Cambridge Center for Alternative Finance (CCAF) gathers regional data on P2P lending. According to the CCAF, the value of trading volumes in USD in 2017 was \$347.8 billion for China, the \$17.34 billion for the US, \$6.29 billion for the UK, \$2.31 billion for Europe (excluding the UK), and \$2.16 billion for APAC countries excluding China. See Internet Appendix B for details. It is also important to note that due to the massive failure of P2P lending platforms, the market size keeps shrinking. According to data from WDZJ, the credit outstanding by the end of 2019 is RMB 419.6 trillion, which only makes up about 40% of the market volume at the end of 2017.

Among the high-profile instances of political interference in regulating the P2P lending market, perhaps the best known is the Ezubao failure. Ezubao, established in 2014, quickly grew to become one of China's largest P2P platforms. In early 2016, news outlets reported that the platform had fleeced investors of RMB 50 billion (\$8 billion) and that 20 people associated with the platform had been arrested for fraud. Investigations revealed that Ding Ning, who had founded Ezubao just two years prior, had used investor money to splurge on lavish gifts and fled to parts unknown. When these facts surfaced, thousands of people organized an investor rights group, making a collective effort to recover what they had lost. They protested in front of police stations and publicly blamed the platform operators and lax regulators for their losses. The extensive press coverage and fears their activism might disrupt social stability led local government to address their demands (Financial Times, February 2, 2016).³

Another illustrative case involves the Tuandai platform, which ranked among the 15 largest P2P platforms in China by total loan outstanding at the end of 2018. Although it had raised RMB 130.77 billion in funding (Global Times, April 29, 2019), the advent of new rules and stricter regulatory enforcement in August 2016 appear to have hastened its demise. Unable to pay its investors, the local government shut down the insolvent Tuandai in late March 2019 and commenced oversight of the platform's liquidation.

Government involvement created an incentive problem in regulating the P2P lending market. Although politicians enjoy benefits from a healthy P2P lending market, including a new revenue stream, progress in financial modernization, and a boost to economic development, they come with a politically costly risk of platform failure. The cost to the individual politician often manifests around major political event windows such as election day. Officials must shoulder blame for investor losses (not to mention a possible decline of economic activity in the region), with much of the political fallout settling on the region where the platform operated. More importantly, news of platform failures highlight weaknesses in local government and disrupts social stability (Piotroski et al., 2015). Local politicians find their ascent in the bureaucratic system checked, since platform failure throws their competence into doubt (Li and Zhou, 2005).

In light of these consequences, local politicians facing promotion pressure are highly incentivized to influence regulatory actions by keeping platform failures from occurring in the lead up to major political events – even when doing so entails the heavy use of taxpayer money. While the losses affect a broad swath of society, the benefits tend to accrue to a small group, which Ding

³ Investors can file a police report after the platform owner runs off with their money. Investors may recoup some of their investment if the police locate the person or persons who made off with their money. On January 8, 2020, for example, Beijing police announced that they had recovered around RMB 20 billion in assets as part of their fraud investigation into Ezubao. Investors could thus expect to get 35% of their money back and bear the remaining losses themselves.

and Gupta (2011) say is yet another reason for election-bound politicians to spend heavily. To understand how political effects interfere in regulatory interventions of platform failures, we focus on the time period surrounding two major political events: meetings of the National Congress of the Chinese Communist Party (CCP) and promotions of provincial leaders (Piotroski et al., 2015).⁴

Our empirical tests use data from China's online lending market between 2011 and 2018, covering all platforms documented by the P2P loan industry portal WDJZ. The Chinese P2P market is unique in the sense that there is an incredibly large number of P2P platforms. As might be expected, platform failures occur much more frequently in China than elsewhere, making the country an ideal natural laboratory for examining the effect of financial and political factors on platform failures.

About 84.1% of the platforms in our sample failed during the eight-year sample period. These failures can be separated into two categories: those where the platform owner *ran off with their investors' money*, and those where the platform owner *declared bankruptcy*. An empirical study of platform failures must therefore incorporate platform exit by both routes. A competing risks model (CRM) is used to analyze the life span of P2P lending platforms that ended by making one of these two types of exits.

Our results suggest that larger and more transparent platforms are less likely to fail than small, opaque platforms. We also find that platforms receiving external financing are less likely to declare bankruptcy,⁵ but more prone to run off with investor funds. More importantly, consistent with our conjecture, we find that platform failure, is much less (more) likely to occur in the twelve months leading up to (or following) our two major political events. The magnitude of the political event effect is economically significant. On average, platform failure hazards are lower (higher) by 24.9% (49.6%) in the year before (after) political events. These results meet various specifications for robustness analysis.

To further highlight the effect of political incentives on regulatory interventions during platform failures, we examine whether the hazard rates before and after these political events vary depending on how well the platform owner is politically connected, local politicians' political ties with the central government, as well as financial and economic conditions in the region where the platform is based. We measure a platform's political connectedness using both state ownership and executive characteristics, e.g. whether the platform owned privately or by the state and whether its executives have prior experience in government. Central-local political ties are measured in terms

⁴ We provide a detailed analysis of two political events in Section 3.

⁵ This includes equity financing of various sources, such as PE/VC, corporate venture capital, non-financial corporations, and individuals. For example, Tuandai platform receives external equity investment from JD capital, Juren investment, EBI investment, as well as Chenning Shen (natural person). Detailed variable definitions are provided in Appendix A.

of the working experience of incumbent Politburo Committee members in the province of the failed platform. We find that platforms located in provinces where such ties exist are more sensitive to political incentives. In particular, among platforms with strong central-local political ties and politically connected platforms, the increases in the failure hazard rate after the major political events we consider are amplified by 77.8% and 133.3% compared to platforms without strong central-local political ties or political connectedness, respectively.

We use the government budget deficit and the unemployment rate in a region as a proxy for local financial and economic conditions. Political incentives for regulatory intervention are expected to weaken in a region where the local government faces tight budget constraints and significant unemployment pressure. Consistent with this expectation, we find that the increase in the hazard rate after political events is less evident for platforms operating in regions with large fiscal deficits and high unemployment rates.

Finally, we consider evidence on whether the self-interested actions of local politicians influence the regulatory actions taken in the event of a platform failure. Our results show that the local politicians' posture toward P2P regulation is likely to explain the transitory pattern of platform failures. In particular, the post-event increases in failure hazard approach 76.3% where officials take a tough stance on regulatory enforcement.⁶

Our paper makes several contributions to the extant literature. While it draws on what came before, this research is among the first to provide a portrait of P2P online lending market in China and the challenges associated with P2P regulation in the world's largest emerging-market economy. We find that both financial and political factors play important roles in determining the overall platform failures, and more specifically, whether the failure can be characterized as one where the owners have chosen the *bankruptcy* or *run off* path of exit. Various studies have investigated the determinants of whether the owners choose to deal with failure of this financial institution through bankruptcy or absconding with their investors' money.⁷ Our paper therefore adds to this literature by providing novel evidence on the newly established financial technology (Fintech) industry and failures of P2P lending platforms.

⁶ There is anecdotal evidence that two provinces, Hunan and Shandong, attempted to ban P2P lending entirely by imposing extremely strict regulations on the industry (South China Morning Post, October 17, 2019).

⁷ In the free banking era, we see evidence of investors swindled by wildcat banks (Rockoff, 1974), as well such banks failing due to declining bond prices (Rolnick and Weber, 1984; Hasan and Dwyer, 1994). In the savings and loan crisis in the US, failed S&Ls either went broke or were looted (Akerlof and Romer, 1993). This parallels the decision-tree of choosing bankruptcy or running off with investor assets as documented in our research. We thank Andrew Winton for pointing out the similarities between the bankruptcies and the deliberate looting of P2P lending platforms by their owners in China in recent years and the going for broke and looting of S&Ls in the US between 1986 and 1995.

By exploring the effect of political incentives for keeping a troubled P2P lending platform on life support, our study advances the understanding of the political economy of financial intermediary failures. Our empirical analysis captures both the pre-event delays of failures and subsequent after-event accelerations. This intertemporal pattern is novel to finance literature as most previous studies only track the pre-event pattern.⁸ By viewing these patterns through a political lens, our study joins the large and important debate on the economic consequences of political connections. A large proportion of the previous research focuses on the benefits of such connections. These include preferential access to financial resources (e.g. Faccio, 2006; Johnson and Mitton, 2003; Khwaja and Mian, 2005; Fan et al., 2008; Schweizer et al., 2019a) and favorable regulatory treatment (Agrawal and Knoeber, 2001; Morck et al., 2005). The evidence is relatively scant on the downside of political connections (Fan et al., 2007; He et al., 2020; Schweizer et al., 2019b). We find that strong political connections exacerbate the political incentives for regulatory intervention during platform failures, while financial pressures tend to have a disciplining effect.

Third, our study contributes to work on regulatory design and regulatory inconsistency (Teisberg, 1993; Rosen, 2005; Rezende, 2011; Agarwal et al., 2014). Most works in this field contrast regulatory structures and their associated consequences. This work points beyond the regulations themselves to unmask the self-interest of local politicians driving regulatory inconsistency and regulatory uncertainty.

Finally, this evidence from China can help us understand emerging economies, which are often characterized by weak legal systems and a propensity for strong government intervention.⁹ These countries can learn from China's experiences with its peer-to-peer lending industry, including the specific lesson that government regulation, entangled with the self-interest of politicians and regulators, can have significantly negative consequences on a newly established Fintech industry. Thus, our work also complements the literature on the government failure (Le Grand, 1991). Such work encompasses studies of policy interventions on the development of European venture capital (see Cumming et al., 2017; Grilli and Murtinu, 2014, 2015), as well as various government policy agendas to stimulate economic development across emerging market economies (see Krueger, 1990; Rajan and Zingales, 1998; Chen et al., 2011; Deng et al., 2017).

⁸ Most studies focus on the pre-event pattern alone, and document a one-sided influence that politicians tend to delay failures in election years (Brown and Dinç, 2005; Liu and Ngo, 2014).

⁹ China has many features of typical of emerging market countries such as a weak institutional environment in ineffective law enforcement (Allen et al., 2005, He et al., 2019). Political forces also contribute to China's poor property protections, a common feature of underdeveloped economies (Piotroski et al., 2015). Emerging economy governments have intensively adopted various policies agenda to boost their economies over the decades (McKinsey, 2019). Available at <https://www.mckinsey.com/industries/public-and-social-sector/our-insights/how-governments-in-emerging-economies-can-help-boost-and-sustain-growth#>

The remainder of this paper is structured as follows: Section 2 discusses the nature of online lending market in the Chinese context and develops several testable hypotheses on platform failure. Section 3 outlines our empirical approach and variables of interest. Section 4 reports the estimation results. Here we use several CRM models to provide a detailed picture of the relationship between political forces, financial factors and platform survival rates bases on the exit strategy selected. Section 5 presents our robustness tests. Section 6 consider suggestive evidence on the relationship between local government intervention and platform failures. Section 7 concludes.

2 Institutional background and research hypothesis

2.1 Institutional settings

As in most emerging market economies, China's formal financial sectors such as credit and capital markets are often ineffective. China's formal financial sector is dominated by banks as is well reflected in a bank-credit-to-GDP ratio that equaled 1.51 in 2018, a level substantially in excess of the average ratio across other countries.¹⁰ However, most bank credit is extended by state-owned banks to either of state-owned enterprises (SOEs) or large private companies. In contrast, most private small and medium-sized firms face substantial obstacles in obtaining external finance from the formal financial sector (He et al., 2017). The capital market is relatively underdeveloped and a majority of listed firms are owned and controlled by the government.

As China's middle class has grown over the past decade, so has its appetite for credit and investment. This growth has dovetailed with technological development in finance, which has greatly facilitated person-to-person lending on the internet. China has over 700 million internet users, many of whom now actively shop online and make payments digitally.¹¹ P2P thus plays an important role in Chinese economy by satisfying the credit demands of households and small businesses (Luo and Zeng, 2020), as well as catering to enormous investor demand for high returns. Outstanding P2P loans went from almost nothing in 2007 to a peak of RMB 1.317 trillion in June 2018.

As mentioned before, P2P is supposed to involve a platform provider who charges a service fee for connecting borrowers and lenders via the internet. Lenders get back their principal and interest if, and only if, borrowers repay their loans. Lenders cannot appeal to the platform for payment if a borrower defaults or fails to make timely payments. As long as this norm is adhered to, the

¹⁰ The data are drawn from National Bureau of Statistics of China (2018).

¹¹ An Ernst & Young (2017) survey of 20 markets found that 58% of consumers in China had used Fintech savings and investment services, more than double the 27% of US consumers. The contrast was even greater with respect to adoption of Fintech borrowing services: 46% of Chinese consumers indicated that they had used these services, compared to 13% of US consumers. See the EY FinTech Adoption Index 2017. Available at [http://www.ey.com/Publication/vwLUAs-sets/ey-fintech-adoption-index-2017/\\$FILE/ey-fintech-adoption-index-2017.pdf](http://www.ey.com/Publication/vwLUAs-sets/ey-fintech-adoption-index-2017/$FILE/ey-fintech-adoption-index-2017.pdf)

panics that lead to P2P platform failures should not be possible. However, most of the P2P platforms in China guarantee their investors a return, which obligates the platform to pay back a loan if it happens to go bad. Moreover, platforms themselves may issue wealth management products that come with a promise of high returns (Balyuk and Devydenko, 2019; Li et al., 2020).

China's Internet Plus initiative exemplifies how China developed its P2P lending industry. In the beginning, the Chinese government encouraged rapid growth of the P2P industry in the name of innovation, hoping to expand the possibilities of existing financial tools. The free hands granted by regulatory authorities allowed P2P platforms to operate in China's informal shadow banking sector. Some P2P platforms began as underground banks, while others went underground over time. In both cases, they raised funds from savers, offering them annualized returns over 8%. Shadow bankers then took these funds and invested them in high-risk sectors such as real estate. Local relationships with P2P platforms helped channel funds to government-related projects.

From the middle of 2013 onward, officials from the People's Bank of China (PBOC) had reason to suspect that platform operators were using their platforms to conduct illegal banking activities. Yet despite this knowledge, no regulatory authorities were explicitly assigned to supervise or oversee P2P platforms. It was only on July 18, 2015, that the PBOC and nine other regulatory authorities jointly released guiding opinions on sound development of internet finance. The China Banking and Regulatory Commission (CBRC, but today CBIRC) was be tasked with regulating online lending policies.¹² By issuing these guidelines and clearly delegating oversight, China signaled that it was finally moving to rein in this chaotic new sector.

With a surge in reports of P2P investors not receiving timely payments and other reports of platform owners and executives absconding with investors' money and running off, investors panicked and tried in vain to withdraw their money. They eventually appealed to the government for help in recouping their losses. To dampen the destabilizing impact of these practices, the CBRC further stipulated that custodian banks would be needed, as well as detailed disclosure of how investor funds were used. The government declared that all P2P lending platforms must register with local authorities, instituting what amounted to a licensing requirement. The CBRC, however, actually did little in overseeing the financial practices of entities it was supposed to regulate. In practice, rule implementation and oversight was left to the particular local government where the platform was registered. Local government agencies would then formulate policies to comply with the CBRC's new rules based on regional conditions. In other words, local governments de facto controlled the supply of P2P lending platforms through chartering restrictions, licensing, and issuing routine regulations on the risk-taking behavior of platforms.

¹² The China Banking and Regulatory Commission and China Insurance and Regulatory Commission merged to become the China Banking and Insurance Regulatory Commission on April 9, 2018.

This decentralized regulatory framework has allowed local politicians to have an incentive to influence the regulatory actions of P2P lending platforms. For instance, implementation of the CBRC's written rules meant local regulators were obliged to take prompt action to shut down failing platforms. However, closing a failing platform also meant incurring large social and economic costs were not in the self-interest of most local politicians. Under the original dispensation, platforms were given just twelve months to comply with the CBRC's new rules. While the original deadline for rectification has long passed, many provinces have postponed the compliance deadline several times.

2.2 Research hypothesis

As discussed above, the failures of P2P platforms are abundantly linked with financial difficulties and the local government's manner of enforcing CBRC regulations on P2P lending. We therefore mainly examine the empirical predictions about the financial and political factors that are likely to affect how P2P platforms fail.

2.2.1 Financial factors

First, following the literature of bank failures, we examine the financial variables relevant to P2P platform failures. Studies on forecasting bank failures use standard predictors of bank-level variables such as bank size, profitability, guarantees, state ownership, capital ratio, and the risk-taking behavior of the bank (see e.g. Cole and Gunther, 1995; Berger and DeYoung, 1997; Berger and Bouwman, 2013; Iyer et al., 2016). Recent policy discussions emphasize the importance of transparency in determining the likelihood of a bank failure. For example, Nier and Baumann (2006) show that disclosure enhances market discipline, thus reducing the moral hazard associated with banking. Jin et al. (2011) show that the quality of audits gives analysts more power to predict failure of banks. Testing a requirement for commercial banks to report financial statements in local newspapers, Granja (2018) finds that more newspaper reports on bank's financial statements are associated with fewer bank failures.

In the P2P platform context, we thus expect that the platform's size, degree of state ownership, possession of a third-party guarantee, and thoroughness of information disclosure are important factors in predicting whether a platform will fail.¹³ Additionally, platform operation raises a number of issues not traditionally considered in studies of bank operations. For instance, some P2P lending platforms have a custodian bank, and are the members of the National Internet Finance Association of China.¹⁴ Some platforms also include listed firms among their large shareholders,

¹³ Jiang et al. (2019) show that the government ownership reduces the probability of platform failure.

¹⁴ A custodian bank keeps safe investor funds, thus reducing the likelihood that such funds are embezzled. The National Internet Finance Association of China conducts self-regulation among its members and monitors their operations.

who themselves receive large amounts of external financing. These factors play important roles in a platform's operation and financial status. We expect that weak platforms are more likely to fail. These arguments lead to the following hypothesis:

H1: The likelihood of platform failure decreases with increases in its financial soundness and quality of information disclosures.

2.2.2 Political factors

In theory, a perfectly informed government with well-motivated officials could achieve a sound development of an industry through regulation¹⁵. In practice, however, government intervention often creates more inefficiency due to regulatory capture/self-interest and the absence of perfect information (Le Grand, 1991). In line with this theory of government failure, a number of empirical studies have found that government intervention increases market distortions (Piotroski et al., 2015; Chen et al., 2011; Deng et al., 2017). For instance, while the European Union has implemented a series of government policy initiatives to stimulate European venture capital market, several studies find policy interventions can have severe negative side effects (Cumming et al., 2017; Grilli and Murtinu, 2014, 2015). Thus, we investigate the role of the political interference using a government failure framework in which local politicians benefit from a healthy P2P online lending market and platform failures exert significant costs on them. Acting in their self-interest, local politicians are prone to intervene in a platform's regulation either to favor their connected constituents or simply to slow the platform's inevitable failure.

The regulatory interventions of self-interested local politicians are of particular relevance in the case of China. Indeed, a distinctive feature of China's political system is that the central government ultimately controls the mobility of local (provincial) government officials (Li and Zhou, 2005; Piotroski et al., 2015). In this framework, the central government delegates the allocation of economic resources within provinces to provincial leaders, who then allocate economic resources within their provinces. It is these provincial leaders who are left responsible for whatever economic consequences might follow. Local economic performance and social stability are the most important criteria the party leadership relies on in deciding on career advancement of provincial leaders.

Local government and politicians exert significant influence on the development of P2P platforms. They can exert direct control of platform shares or indirectly intervene through regulation, licensing requirements, and other bureaucratic measures. Regarding self-preservation and career advancement, the political incentives of local leaders for avoiding platform failures revolve around two major political events: meetings of the National Congress of the Communist Party of

¹⁵ A perfectly informed government with well-motivated officials can correct for market failures arising from externalities, increasing returns to scale, and imperfect information (Wolf Jr., 1979; Le Grand, 1991).

China and provincial-level promotions, i.e. the times when platform failures are most costly to local politicians.

Platform failures incur a significant cost for local politicians via the mobility mechanism of government officials (Li and Zhou, 2005). The central government will question the competency of the incumbent politician in regulating the P2P sector as the costs of platform failure (investor losses, and the drag on the local economy) are likely geographically concentrated in the region where the platform operated. Unhappy investors and negative public perceptions about platform failures, in turn, hurt the local governor's chances of promotion.

China's culture of conformity and compromise places explicit emphasis on the need to keep society stable (Dunfee and Warren, 2001; Li, 2003; Li et al., 2011). The revelation of bad news regarding P2P platform failures may also lay bare weaknesses in local government, thereby disrupting social harmony. The coexistence of culture norms (Bond and Smith, 1996; Gorodnichenko and Roland, 2017) and mobility mechanism creates a significant incentive for politicians to maintain social harmony before major political events.

In the window of time preceding major political events, a local politician has heightened incentive to delay an impending platform failure as doing so can improve his or her odds of future advancement. Such delays come with their own costs, however. The local government still needs to find an outlet for those failures. Disciplining the P2P lending industry in China requires stringent regulation, and failure of platforms that cannot meet the regulatory requirements is inevitable. The result is a higher number of platform failures after major political events with since the costs of delay simply shifted in time. Thus, we offer our political incentive hypothesis:

H2: Platform failure is much less (more) likely to occur before (after) major political events.

As the political forces in play are expected to vary according to provincial characteristics, we can test whether such political forces have a heterogeneous impact on platform failures around political events. Several ways of testing this hypothesis are available. First, politically connected platforms are more likely to be scrutinized by local governments. Local regulatory authorities possess greater power to forestall a platform failure than politicians lacking political clout. Second, if politicians in a region with close central-local political ties wish to protect or improve their positions, they, too, have heightened incentives to avoid disclosing bad news before their promotion is announced. When the platform finally fails, the local government suffers significant financial cleanup costs, and the weakness of local financial and economic conditions should discipline politicians with regard to regulatory intervening in platform failures. We expect the acceleration of platform failures after

political events to be weaker in regions with large government budget deficits and high unemployment rates. To confirm these, we test the following hypotheses:

H2a: Platforms with political ties or connections are less (more) likely to fail before (after) major political events.

H2b: Platform failure after major political events are rarer in regions with large government budget deficits and high unemployment rate.

2.2.3 Other factors

We investigate several other factors likely to be related to platform failure. First, we examine the effects of the personal traits of platform executives.¹⁶ Inspired by the prior literature, we mainly consider the educational, occupational, and professional backgrounds of platform executives. Those with higher educational qualifications who have experience in finance and technology industries are likely to possess a greater degree of business acumen, and thus take greater pains to avoid platform failure (Klein, 1998; Adams et al., 2010).

Second, we investigate the impacts of governance structure on platform failures (Berger et al., 2016). Shehzad et al. (2010) show that the shareholding concentration is closely related to a bank's riskiness, proxied by its non-performing-loan ratio and capital adequacy. We include here a variable to measure the shareholding percentage of the largest shareholder. Laeven and Levine (2009) emphasize the role of the relative power of shareholders. We construct a variable from the difference in shareholding percentages between the largest and the second-largest shareholder to reflect shareholding concentration in a relative manner. Expecting that a relatively better governance structure portends a lower likelihood of platform failure, we offer the following hypothesis:

H3: Platforms with better governance (more experienced executives, lower ownership concentration, etc.) have a lower likelihood of failure.

2.2.4 The decision to declare bankruptcy or run off

Our analysis so far has focused on determinants of P2P platform failure. However, as described in the previous section, the platform owner faces a choice in exiting the P2P lending market, i.e. *bankruptcy* or *running off* with investors' funds. Both exit strategies arise as platform health deteriorates, but the motivations of the platform owner may depend on the specific situation. A *bankruptcy* occurs when a platform becomes insolvent. The government can close the failing platform by revoking its

¹⁶ Most platforms are start-ups in which the founder has played an important role (Ewens and Marx, 2018). Apart from CEO and chairman, we also take the founder's background into consideration. The results are robust when only the CEO and chairman are included.

license and liquidating its assets, or even take over this platform when problems are severe. Alternatively, platform owners can take the initiative and abscond with their investors' money rather than wait for government regulators to react. What we refer to here as "*running off*" with investor money is more likely to take place when platform owners are able to abuse ample funds and are subject to low costs of fraud, i.e. low probability of detection and low legal enforcement.¹⁷ As a result, financial and political factors are likely to have different impacts on the likelihood of *bankruptcy* versus *run off*.

The availability of funds can be proxied by whether a platform receives a large amount of external financing. While provision of external financing may alleviate the financial distress of a failing platform, it may also incentivize the platform owner to abscond with the investors' money. Therefore, receiving external financing should correlate positively with the probability of running off and negatively with the probability of declaring bankruptcy. In addition, concentrated ownership enables platform owners to engage in a variety of self-serving behaviors. To hide their self-dealing and avoid scrutiny of their corrupt behavior, platform owners and executives are more likely to withhold or selectively disclose information (Liu and Ngo, 2014; He and Rui, 2016). We thus expect that ownership concentration (shareholding percentage of the largest shareholder) and information transparency (how well the platform discloses information about its executive team and audit information) should have a more prominent impact on the probability of *running off* as compared to the probability of *bankruptcy*.

Compared to *bankruptcy*, *running off* with platform assets leads to a wider range of social harms. In the window of time preceding major political events, local politicians have a heightened incentive to maintain a soft stance on regulatory intervention in a failing platform. If the exit is motivated by the platform owner's desire to abscond with investor funds, we predict that platform owners are much less likely to take off in advance of important political events as regulatory forbearance allows them to continue to enjoy benefits from their operating platform. This leads to our final hypothesis, stated in three parts:

H4a: Platforms receiving external financing have a lower likelihood of declaring bankruptcy, but face a higher likelihood that the platform owner runs off with investor funds.

H4b: The likelihood of that the platform owner runs off with investor funds decreases significantly with increased ownership diversification and information transparency.

H4c: The owner of a failing platform is much less likely to run off with investor funds ahead of major political events.

¹⁷ The literature emphasizes the importance of legal enforcement in anti-corruption efforts and suggests that fraud tends to occur in situations with limited legal consequences (Fisman and Miguel, 2007).

3 Data, research design and summary statistics

3.1 Data

We use WDZJ to identify a sample of P2P platforms operated over the period of January 2011 to December 2018.¹⁸ To be included in our sample, we require that the platform have sufficient financial characteristics and a listed time of failure on WDZJ (if applicable). Our final sample consists of 6,363 P2P platforms and 147,499 platform-month observations. Regional macroeconomic data are drawn from various annual editions of the China City Statistical Yearbook.

WDZJ has a number of ways of dealing with platform failure, so we specify that “failure” does not necessarily imply that the platform ceases operation. Broadly, we divide failures into two groups: those instigated by executives and owners who *run off* with investor’s money (labeled as “runaway,” “under legal investigation,” and “shut down their websites” in WDZJ), and those in which the platforms *enter into bankruptcy* (labeled as “closed down,” “withdrawing difficulty,” “transformed to provide non-P2P lending service,” “no longer posting new applications,” and “postponed repayment to the investors” in WDZJ). In the case of the first exit strategy, the platform owner absconds with investor funds and is subject to criminal or civil liability. In the case of the latter strategy, the platform has ceased to operate due to a lack of cash.

All platforms are followed from January 1, 2011 until one of the following three events occurs: (i) *declaring bankruptcy*; (ii) *running off*; or (iii) *surviving* as a going concern until December 31, 2018, the end of sample period. Panel A of Table 1 provides the summary statistics for survival of our sample platforms.

Two findings are worth emphasizing. First, platform failures are very common in the sample period. Out of the 6,363 P2P platforms in our sample, 3,835 left the P2P space by declaring bankruptcy, with another 1,522 absconding with investor funds, making for an overall failure rate of 84.2%. As a corollary, we can say that platforms tend to be short-lived. The average duration of a platform is less than two years, with a median duration of 19 months. The range of a duration is from 1 month to 139 months.

Second, there is striking difference between the bankruptcy and running off exit strategies. A platform lasts significantly longer when it exits through the bankruptcy and liquidation process than it does in instances where the owner runs for the exit. The mean and median of the platform’s survival period are 20.759 and 18 months for platforms that go bust, while they are 14.833 and 9 months for those where the owner takes the money and runs.

Panel B and Panel C of Table 1 report the yearly and regional distribution of platform failures. In the first two years of our sample, platform failures were relatively rare, but failures

¹⁸ Although the first P2P platform in China was established in 2007, the first platform failure did not occur until 2011.

surged in the period 2015–2018, a period when regulatory authorities take tightening measures. Most platforms are located in the coastal provinces, such as Guangdong, Zhejiang, Shandong, and Shanghai. Not surprisingly, more than half of the recorded failures in our sample occurred in these provinces. The percentage of platform failures varies significantly across provinces. Shandong is the top, measured at 94.3%, while Xinjiang is the bottom with 48.15%¹⁹. In terms of our two exit strategies, a significantly higher proportion of failures in inner provinces involve running off with investor money. For instance, around half of failures involve *running off* in Shanxi (17/32), Gansu (8/16), and Yunnan (22/63).

Panel C also reports the distributions of promotions of provincial leaders and years with close central-local political ties across each province from 2011 through 2018.²⁰ There are, in total, 67 promotions of provincial leaders in our sample, covering 28 out of 30 provinces, with Sichuan and Inner Mongolia the two exceptions. Note that only 177 platforms were registered in these two provinces. The other 97.2% of platforms were located in provinces with promotion records. Around a third of the provinces only have one record of the promotion of provincial leaders. Six out of 30 provinces (including Liaoning, Shanghai, and Zhejiang) boast an eight-year (full observation period) record of central-local political ties, while there are no record of such ties in nine provinces (including Gansu, Guangxi, and Jiangsu). We also find that promotions appear to be more frequently observed in economically important provinces (e.g. Shanghai and Zhejiang) and provinces with close ties to the central government (e.g. Liaoning, Shanghai, and Zhejiang). These provinces have the higher promotion number of 4.

Table 1 Summary statistics of failures

Panel A: Survival time by type

	Full sample	Bankruptcy	Run	Censored
Number of failed	6363	3835	1522	1006
Mean of duration	23.199	20.759	14.833	45.157
Minimum duration	1	1	1	3
Median duration	19	18	9	45
Maximum duration	139	119	96	139
Std	17.904	14.822	15.869	14.093

¹⁹ It indicates that regional factors may play an important role in explaining platform failures

²⁰ *Ties* is a dummy variable that equals to 1 if the platform operates in provinces where current politburo members have served as provincial secretary or governor, and 0 otherwise. In other words, *Ties* is set equal to 1 only in provinces in periods when the former top provincial leaders are serving as Politburo Committee members. Years with close central-local political ties are the aggregation of *Ties* in a province over the eight-year sample period.

Panel B: Yearly distribution of failures

Year	Bankruptcy	Run	Total	Cumulative
2011	4	5	9	9
2012	2	3	5	14
2013	69	6	75	89
2014	151	133	284	373
2015	696	554	1250	1623
2016	1305	390	1695	3318
2017	646	72	718	4036
2018	962	359	1321	5357
Sum	3835	1522	5357	–

Panel C: Regional distribution of failures

	Failures	Bankruptcies	Run offs	Platforms	% failure	Promotions	Years with Ties
Anhui	183	136	47	211	86.73	4	0
Beijing	573	445	128	781	73.37	2	7
Chongqing	106	89	17	114	92.98	1	3
Fujian	123	91	32	151	81.46	2	8
Gansu	16	8	8	19	84.21	1	0
Guangdong	850	590	260	1,079	78.78	2	8
Guangxi	64	42	22	80	80.00	1	0
Guizhou	52	45	7	67	77.61	4	3
Hainan	17	12	5	20	85.00	2	5
Hebei	131	89	42	153	85.62	1	1
Heilongjiang	26	20	6	30	86.67	3	1
Henan	109	84	25	128	85.16	3	8
Hubei	161	126	35	188	85.64	2	5
Hunan	117	89	28	130	90.00	4	0
Inner Mongolia	17	12	5	21	80.95	0	5
Jiangsu	275	216	59	303	90.76	3	0
Jiangxi	64	49	15	82	78.05	3	0
Jilin	16	10	6	24	66.67	3	5
Liaoning	44	28	16	62	70.97	4	8
Ningxia	17	14	3	21	80.95	1	0
Qinghai	2	1	1	3	66.67	2	1
Shaanxi	65	46	19	77	84.42	3	1
Shandong	645	427	218	684	94.30	1	5
Shanghai	674	463	211	788	85.53	4	8
Shanxi	32	15	17	41	78.05	1	0
Sichuan	135	94	41	156	86.54	0	2
Tianjin	62	45	17	67	92.54	2	5
Xinjiang	13	11	2	27	48.15	1	0
Yunnan	63	41	22	69	91.30	3	0
Zhejiang	705	497	208	787	89.58	4	8
Total	5,357	3,835	1,522	6,363	84.19	3	–

This table presents the summary statistics of platform failures. Panel A reports the survival time of platforms by types. Panels B and C present the yearly and provincial distribution of platform failures.

3.2 Research design

3.2.1 Empirical methods

We model platform failures using a competing risk hazard analysis. Our model accounts for multiple forms of exit and allows the failure probability to depend on its duration (He et al., 2010). The hazard rate of exit is defined as the instantaneous rate of platform failure given survival until that time. A platform i can exit the P2P lending market by *bankruptcy* or *run off* with investors' funds. Time to exit t_i and the exit route j are observed, where $j = 1$ corresponds to the case of *bankruptcy* and $j = 2$ corresponds to the case of *run off*. For each possible risk, there is a latent duration T_j , which is the time elapsed before the spell ends via route j in the absence of any other risks, which may cause the spell to end before this time. Thus, the actual exit time and exit mode can be interpreted as the realizations of random variables T and J defined as follows:

$$T = \min(T_j, j = 1, 2) \quad J = \arg \min_j (T_j, j = 1, 2).$$

At each point in time, the hazard function for risk j is

$$\lambda_j(t) = \lim_{\Delta t \rightarrow 0} \frac{\Pr(t \leq T \leq t + \Delta t, J = j | T \geq t)}{\Delta t}. \quad (1)$$

Under the assumption that the risks are independent, the overall hazard function can be written as

$$\lambda(t) = \sum_{j=1}^2 \lambda_j(t), \quad (2)$$

where λ_1, λ_2 are the cause-specific hazard functions for bankruptcy, and run off, respectively. Consider the risk-specific hazard function with Cox proportional hazard (Cox PH) type:

$$\lambda_{ji}(t | x_{ji}(t), \beta_j) = \lambda_{0i}(t) \exp[x'_{ji}(t) \beta_j], \quad (j = 1, 2), \quad (3)$$

Where λ_{0i} is the baseline hazard function specific to type j hazard at time t ; $x_{ji}(t)$ is a vector of time dependent covariates for platform i specific to type j hazard at time t ; and β_j is the vector of unknown regression parameters to be estimated. The partial likelihood function for each specific hazard j is given as

$$L_j(\beta_j) = \prod_{i=1}^{k_j} \frac{\exp[x'_{ji}(t_{ji}) \beta_j]}{\sum_{l \in R(t_{ji})} \exp[x'_{jl}(t_{ji}) \beta_j]}, \quad (4)$$

Where k_j refers to the number of platforms subject to specific hazard j , and $t_{j1} < \dots < t_{jk}$, denotes the k_j ordered failures of hazard j . $R(t_{ji}) = \{l | t_{jl} \geq t_{ji}\}$ is the set of platforms that have not exited the P2P lending market at time t_{ji} . The likelihood function for the Cox CRM²¹ is

$$L(\beta_1, \beta_2) = \prod_{j=1}^2 \prod_{i=1}^{k_j} \frac{\exp[x'_{ji}(t_{ji})\beta_j]}{\sum_{l \in R(t_{ji})} \exp[x'_{jl}(t_{ji})\beta_j]}. \quad (5)$$

The above calculation treats the two competing risks as independent. In the robustness test, we make use of the Fine and Gray (1999) model, which relaxes the independency assumption and allows for correlated risks.

3.2.2 Variables

To measure political influence, we focus on major national and provincial events: The National Congress of the Communist Party of China (NCCPC) and the promotion of provincial officials. The National Congress, the highest body of the Communist Party of China, convenes every five years. In our sample period, the 19th NCCPC was held October 18 to 24, 2017.²² The National Congress elects party bodies, outlines central government policies, and sets political and national economic objectives for the next five years. A large number of platform failures during a congress year is seen to undermine the aims of the National Congress and impose significant costs on local politicians.

The central government creates a tournament-like contest for the promotion of local politicians based on their economic and social performance. At provincial level, the party secretary holds the top position, supervising the local government, followed by the provincial governor, who is responsible for detailed government affairs. They are “like the middle-level managers in a multi-divisional corporation who are responsible for their divisional performance” (Li and Zhou, 2005). Thus, local politicians have great incentives to delay platform failures as the day of possible promotion nears. We focus on promotion for the positions of provincial party secretary and provincial governor (Piotroski et al., 2015). Following Li and Zhou (2005), a promotion takes place under two circumstances: (1) provincial secretaries ascend to membership in the State Council or assume one of several other positions, such as vice-premier, premier, Politburo member or Politburo Standing Committee member; or (2) governors are appointed party secretary of the original province or another province of greater economic importance (as measured by GDP). Our results of provincial promotion are hand-collected from the official government websites of each province.

²¹ The model is semi-parametric in the sense that vector β_j can be estimated without imposing any assumption on the baseline hazard function.

²² We do not consider the 18th NCCPC, which was held in November 2012, as platform failures were still relatively uncommon in that period. Our results are robust when we include 18th NCCPC as a major national political event.

Following the literature (Brown Dinç, 2005, Liu and Ngo, 2014; Piotroski et al., 2015), we let the political event date be month 0 and focus on the 12 months prior to and 12 months after a political event.²³ We construct two dummy variables, *Pre Political* and *Post Political*. *Pre Political* is a dummy variable, which equals one if month t and platform i falls in the event window $[-12, -1]$ and zero otherwise. *Post Political* is a dummy variable, which equals one if month t and platform i falls in the event window $[1, 12]$ and zero otherwise. We also examine the effects of national and provincial political events separately. Adopting the same method, we construct two sets of dummies: *Pre Congress* and *Post Congress*, and *Pre Promotion* and *Post Promotion*.

Financial variables at platform level include *Size*, defined as the natural logarithm of paid-in capital; *Custodian*, a dummy variable that equals one if P2P platforms have deposited investor funds in a custodian bank, and *Guarantee*, a dummy variable that equals one if a third-party provides security to the lender when the borrower cannot make payments. There are also *State*, a dummy variable that equals one if the controlling shareholder is government or government related agencies; *Listed*, a dummy variable that equals one if the platform have a listed corporation as large shareholder; *NIFAC*, a dummy variable that equals one if the platform is a member of the National Internet Finance Association of China, and *Financed*, a dummy variable that equals one if the platform receives external financing. Recent policy discussions have emphasized the importance of information disclosure in financial institutions. Accordingly, we include dummy variables, *Executive (Audit)*, which equals one if the platform reports executive information (audit report).

Regional variables include *PGDP*, which is the *per capita GDP* of the city where the platform is registered, and *Loan*, defined as the ratio of overall bank loans to GDP. We calculate a city's fiscal deficit as the ratio of government expenditures less the ratio of government revenue to GDP. We further construct a dummy variable, *Fiscal Gap*, which equals one if the deficit of a city is above the median of municipal deficits in each year and zero otherwise. *Unemployment*, which equals one if a platform is registered in a province with a rate of unemployment above the monthly median and zero otherwise. Finally, China's regulatory authorities implemented a national major reform that imposed more stringent requirements for the P2P lending industry after July 2015. To capture the effect of their greater regulatory intensity, we include a dummy variable, *Regulation*, indicating the post-regulation period, i.e. *Regulation* equals one if month $t > \text{July 2015}$ and zero otherwise. Detailed definitions for all variables are presented in Appendix A.

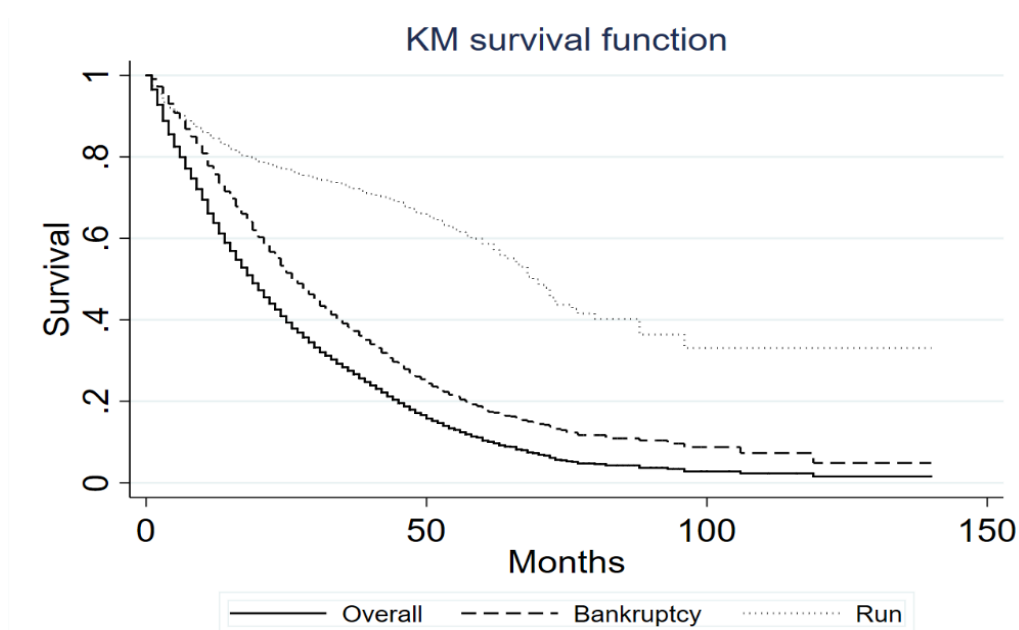
²³ The pre-event window and post-event window may overlap. For example, a provincial leader may be promoted shortly before the national congress. In this case, the post-promotion period coincides with the pre-congressional period. For such overlapped event windows, we define them as pre-political only. As long as major political events are set to occur in the near future, the political cost of platform failures remains high and local government has the incentive to retard, rather than accelerate, failures.

3.2.3 Summary statistics

Using the standard nonparametric Kaplan-Meier estimators, we begin our preliminary analysis without explanatory variables. Figure 1 plots the estimated survival function for platforms. Note the clear non-monotonic pattern of duration dependence. The solid line represents the overall survival of platforms. The platforms experience significant declines in their survival rates around the first 30 months, with decreases becoming relatively moderate thereafter.

We next distinguish two categories of failures (bankruptcy exit and run off exit) using dashed and dotted lines, respectively. The dotted line runs above the dashed line during most periods as more firms fail because they declare bankruptcy rather than the owner running off with investor's money. Like the solid line, the dashed line is relatively smooth, suggesting that bankruptcy hazard is present throughout the lifespan of a platform. The dotted line, on the other hand, exhibits a drastic drop in the initial periods and then flattens around 30 months. This could suggest that platform owners have a strong incentive to take the money and run as soon as they receive funds from investors. Consequently, more platforms undergo run off exits early on.

Figure 1 Kaplan-Meier survival estimates



This graph presents the KM survival function of the platforms. The solid line reveals the overall survival function where both *bankruptcy* and *run off* hazards are considered. The dashed and dotted lines represent the individual survival functions for *bankruptcy* and *run off* hazard, respectively.

To see whether platform failures are related to our major political events of interest, we first plot the monthly distribution of platform failures in our sample period in Figure 2 Panel A, paying particular attention around October 2017, when the 19th National Congress of the Chinese Communist Party was held. Notably, we find that failures have surged after mid-2014, reaching their peak in September 2016 (roughly 240 failures). After that, there is a significant drop in the twelve months

prior to the convening of the National Congress. In September 2017, one month prior to convening, only 77 failures are recorded, two-thirds less than in August 2016. Fails again shoot up in the twelve months after the National Congress. In July 2018, nine months after the meeting, the number of failed firms reaches its highest level (293 failures).

To look at the effects of the provincial political events, we compare the number of failures that occur in the twelve months before the day of a promotion announcement and the number that occur in the twelve months following the announcement. The bars in Panel B of Figure 2 plot the average number of platform failures in six-month blocks in the months before and after a promotion. A comparison of pre- and post-promotion failure rates paints a striking picture. The average six-month pre- and post-promotion number of platform failures are 54.5 and 61.3 per month, respectively. The difference is more prominent when comparing the monthly average number of failures in $[-12, -7]$ and $[7, 12]$, which are 61.7 and 79.8. Based on these raw numbers, about 21.5% more platform failures occur in the months following a promotion than in the months leading up to a promotion. These findings provide initial evidence of the importance of political incentives on the timing of platform failure.²⁴

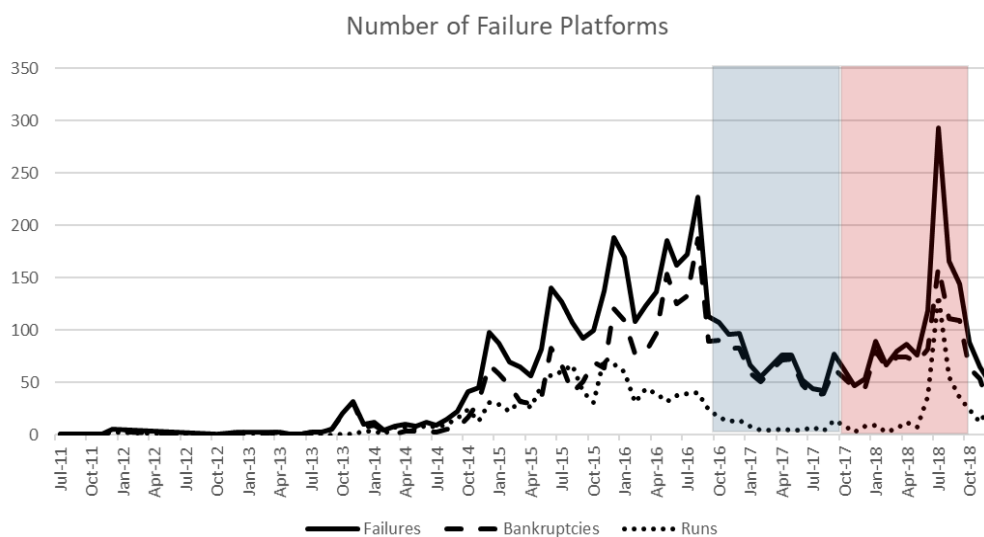
Panel A of Table 2 compares the platform failures in the pre-event period and the post-event period. The results are largely consistent with the patterns described above. Failure is 16% less frequent in the time leading up to political events (104.9 *pre-political* failures versus 124.8 *post-political* failures), 34.6% less frequent in the time leading up to national political events (71.3 *pre-congress* failures versus 108.9 *post-congress* failures), and 17.7% less frequent for provincial political events (58.1 *pre-promotion* failures versus 70.6 *post-promotion* failures).

As previously mentioned, we split the failures into subsamples by the types of exits (*bankruptcy* and *run off*). We find that *bankruptcy* failures are about 3.3% less frequent in the months leading up to a political event compared to the months following (89.4 *pre-political* failures versus 92.5 *post-political* failures). Furthermore, *run off* failures are about 52.1% lower in the months leading up to the political events relative to the number of failures in the post months (15.5 *pre-political* failures versus 32.33 *post-political* failures). Similar results are found in the periods preceding and following major national and provincial political events.

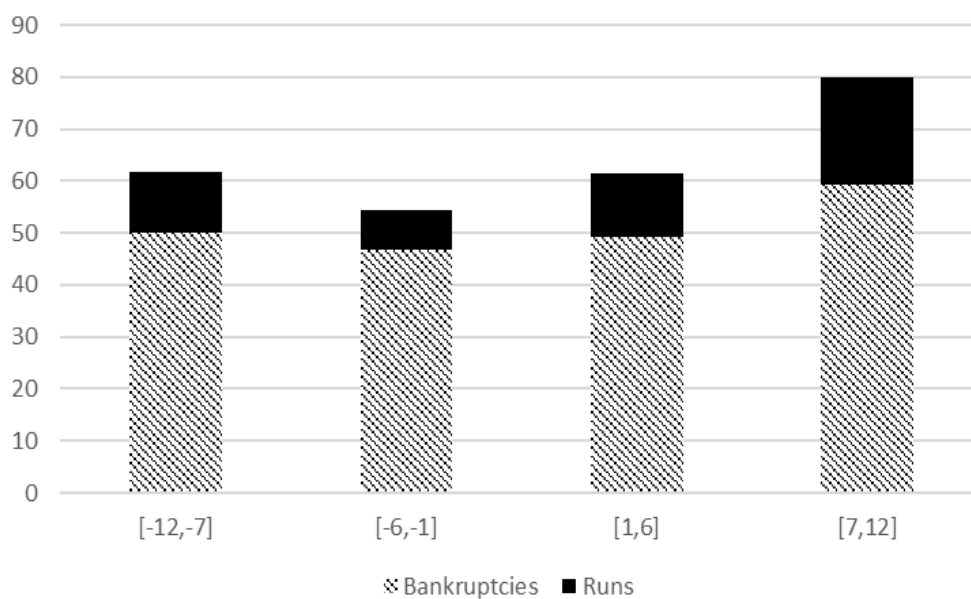
²⁴ Please note that the national major reform-guiding opinions on the sound development of internet finance was introduced in July 2015 to regulate online lending policies. The monthly average number of failures that occur in the twelve months before (after) this reform is 60.83 (136.17). These results suggest that platform failure is much more likely in the months after a major reform than in the months preceding the reform. To ensure our results are robust, we exclude observations that fall into the one-year window around this national major reform and re-estimate our main regressions. The results are reported in Panel C of Table 8.

Figure 2 Number of failures around political events

Panel A: Failures around the 19th National Congress of the Chinese Communist Party



Panel B: Failures around the promotion of provincial leaders



The graphs show the frequent counts of platform failures around major political events. In Panel A, the solid, dashed, and dotted lines represent the number of platforms that failed, went bankrupt or an owner ran off with the investors' money. The blue area covers the 12 months before the 19th National Congress of the Chinese Communist Party, while the red area represents the following 12 months. In Panel B, the number of platform failures (by different types) around the promotion of provincial leaders are presented. The shaded bars stand for the number of bankrupted platforms, the black bars represent the number of platforms where owners ran off with investors' money. The height of each bar reflects the total number of failed platforms.

Panel B compares the summary statistics of finance and other variables of all platforms grouped by the types of exits (i.e. platforms that *survive* to the end of the sample period, those that *went bankrupt*, and those where the platform owner *ran off* with investor money). It shows that failed platforms tend to be smaller, more likely to be privately owned, and less likely to have listed firms as large shareholders or be members of the National Internet Finance Association of China. Also, platforms that have custodian banks and third-party guarantees enjoy a higher rate of survival. In terms of information disclosure, we find that disclosure of executive and audit information is associated with lower probabilities for either category of platform failure.

Regional development also appears to play an important role. Platforms that survive tend to be concentrated in regions with more advanced economic development and a higher degree of financial development. Better governance is related to fewer failures as well. Normal platforms tend to have executives with more extensive professional and educational backgrounds, and their shareholding concentration levels are, on average, lower than failed ones. This evidence hints at the idea that both political interventions and the platform's financial characteristics are the key determinants of its failure. Additional statistics are presented in Internet Appendix A. The correlation matrix of these variables is reported in Appendix B.

Table 2 Descriptive statistics

Panel A: Failures around political

	Political			Congress			Promotion		
	Failures	Bankruptcies	Runs	Failures	Bankruptcies	Runs	Failures	Bankruptcies	Runs
Pre Avg	104.92	89.42	15.50	71.25	63.17	8.08	58.08	48.42	9.67
Post Avg	124.83	92.50	32.33	108.92	81.50	27.42	70.58	54.17	16.42

Panel B: Finance and other variables

	(a) Normal			(b) Bankruptcy				(c) Run				
	Mean	SD	Median	Mean	SD	Median	(a)–(b)	Mean	SD	Median	(a)–(c)	(b)–(c)
Size	3.538	3.946	0.000	2.050	3.381	0.000	1.488***	1.997	3.405	0.000	1.541***	0.053
Custodian	0.291	0.454	0.000	0.057	0.232	0.000	0.234***	0.076	0.265	0.000	0.215***	–0.019***
Guarantee	0.262	0.440	0.000	0.178	0.382	0.000	0.084***	0.114	0.318	0.000	0.148***	0.064***
Listed	0.030	0.170	0.000	0.010	0.099	0.000	0.020***	0.003	0.051	0.000	0.027***	0.007***
State	0.028	0.164	0.000	0.011	0.104	0.000	0.017***	0.013	0.114	0.000	0.015***	–0.002
Financed	0.045	0.207	0.000	0.013	0.115	0.000	0.032***	0.032	0.175	0.000	0.013**	–0.018***
NIFAC	0.021	0.145	0.000	0.004	0.062	0.000	0.017***	0.009	0.096	0.000	0.012***	–0.005**
Executive	0.649	0.477	1.000	0.457	0.498	0.000	0.192***	0.331	0.471	0.000	0.318***	0.126***
Audit	0.036	0.185	0.000	0.005	0.068	0.000	0.031***	0.007	0.085	0.000	0.028***	–0.003
Regulation	0.734	0.442	1.000	0.867	0.340	1.000	–0.133***	0.763	0.425	1.000	–0.029**	0.104***
PGDP	17.880	13.860	15.370	16.530	13.150	14.280	1.350***	16.790	13.980	14.700	1.090***	–0.260
Loan	1.717	0.965	1.841	1.651	0.553	1.804	0.066***	1.612	0.590	1.775	0.105***	0.039**
Bank	0.284	0.451	0.000	0.226	0.418	0.000	0.058***	0.227	0.419	0.000	0.057***	–0.001
Tech	0.239	0.426	0.000	0.185	0.388	0.000	0.054***	0.217	0.413	0.000	0.022	–0.032
Education	0.514	0.500	1.000	0.437	0.496	0.000	0.077***	0.406	0.492	0.000	0.108***	0.031
Largest	0.704	0.262	0.700	0.750	0.245	0.800	–0.046***	0.801	0.225	0.900	–0.097***	–0.051***
Counter	0.543	0.380	0.507	0.590	0.386	0.650	–0.047***	0.656	0.383	0.800	–0.113***	–0.066***
Ties	0.740	0.439	1.000	0.692	0.462	1.000	0.048***	0.736	0.441	1.000	0.004	–0.044***
PC	0.078	0.268	0.000	0.0579	0.234	0.000	0.020***	0.0757	0.265	0.000	0.002	–0.018
Fiscal Gap	0.516	0.500	1.000	0.492	0.500	0.000	0.024***	0.470	0.499	0.000	0.046***	0.022
Unemployment	0.501	0.500	1.000	0.557	0.497	1.000	–0.056***	0.570	0.495	1.000	–0.069***	–0.013

Panel A reports the monthly average number of platform failures by types around major political events. Panel B presents the summary statistics of key variables among platforms of different types (i.e. platforms that survived, went bankrupt, or the owner ran off with the investors' money). Variable means, standard deviations and medians are reported. Mean differences are also presented along with t-test significance. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively. Variable definitions are presented in Appendix A

4 Empirical results

4.1 Main results

The main Cox regression results are reported in Table 3. In the following discussion, we first consider failure events as a whole, treating *bankruptcy* and *run off* exits as identical. We then examine whether the determinants of these two types of failures differ in various platform and regional characteristics. Coefficients are reported in all regressions, and a positive (negative) coefficient indicates an increase (decrease) in the likelihood of exit given that the platform has survived to the end of our sample period. Standard errors are clustered at platform level.

The main regression is reported in Table 3. Column 1–3 report the results of Cox duration analysis, where both *bankruptcy* and *run off* are considered as identical failures. Column 4–9 report the results of the competing risk analysis, which estimate the coefficients of two types of platform exit: *bankruptcy* and *run off*. In all specifications, we control for the regional macroeconomic variables and the national regulatory intensity. We then control for information transparency and other platform-level factors by deeming them alternative specifications. In the analysis of all failures, we consistently find that the coefficients of the *Pre Political* period are significantly negative, while the coefficients of the *Post Political* period are significantly positive. These results suggest that platform failures are less likely in the year leading up to a major political event and more likely in the year that follows. This political effect is also economically significant. The coefficient for *Pre-Political* (*Post-Political*) is -0.286 (0.403) in the full specification, which is equivalent to a reduction (an increase) in the probability of failure by about 24.9% (49.6%) in the year before (after) the political event.

Looking at the different types of platform failures, we still find negative coefficients on *Pre-Political* and positive coefficients on *Post-Political*. However, for *bankruptcy* failures, the coefficients of *Post-Political* play a larger role on the hazard rate and are statistically significant at the 1% level, while the influence of *Pre-Political* are insignificant after controlling for platform-level variables. For *run off* failures, we only find significant coefficients of *Pre-Political* on hazard rate, whereas the impacts of *Post-Political* are mixed depending on specifications. To give an indicator of economic significance of these findings, the coefficients in Column 8 and 9 suggest that the drop in failure hazard before political events is mainly caused by the 63.8% decrease in the platform’s “run” hazard. Bankruptcy hazard is higher by 67.5% after major political events. Over the same period, the increase in platform run hazard is 15.5%.

The different effects of political incentives created by *bankruptcy* and *running off* have important policy implications. Compared to *bankruptcy*, which is not without costs to society, the act of a platform owner *running off* with investor money leads to greater distrust, even economic

panic, that significantly erodes social stability. More importantly, the incidence and frequency of running off is likely to relate to insufficient regulatory coverage, which suggests that regional leaders have been unable to address the problem on their own. Consequently, local governments have heightened incentives to discourage platform owners from running off during critical political periods. Naturally, after the political events, local politicians have less pressing political concerns and are more likely to shut down a failing platform.

Turning to the effects of financial variables, platforms that have more paid-in capital are less likely to fail, and the reduction of the *bankruptcy* hazard is more prominent. Across all specifications, *Custodian*, *Guarantee*, and *Listed* are significantly associated with lower rates of platform failure. Note that keeping investors' fund in a *custodian* bank is the qualitative factor of greatest importance, as it decreases the overall, *bankruptcy* and *run off* hazard by 81.6%, 84.0% and 73.9%, respectively. Platforms that are owned by the state and belong to the *National Internet Finance Association of China* experience a lower rate of failure hazard, with significantly larger effects on the failures of bankruptcies. Consistent with our hypothesis, we find mixed results for *external finance*. Platforms receiving external funding are less likely to enter *bankruptcy*, but are associated with a higher hazard rate of *running off*. These two effects offset one another and end up exerting an insignificant amount of influence on the overall failure hazard. One possible explanation for this weak influence is that receiving external financing makes platforms less vulnerable to insolvency and reduces the likelihood of *bankruptcy*. However, given the additional funds that they have received, the platform owners have greater incentive to embezzle funds from both platform users and their external investors, i.e. *run off*.

Our variables of information disclosure also provide the expected results. Platforms that disclose their *executive* and *audit* information have lower rates of failure hazard. This is not surprising given that more transparent platforms are less likely to play host to fraud or engage in other costly illegalities.

Finally, the results for regional controls are largely in line with those in the extant literature. A better-developed financial market reduces the likelihood of platform failures, with the effect being stronger for failures due to *bankruptcy*. This indicates that a developed financial market is able to reduce the likelihood of a particular online lending platform becoming insolvent. Higher per capita GDP is associated with lower failure rates, but becomes insignificant after controlling for platform-level variables. The coefficients of *Regulation* are significantly positive in all specifications, indicating that regulatory intensity has the potential to drive or provoke platform failures.

Table 3 Baseline results

	(a) Cox			(b) CRM					
	Failure			Bankruptcy	Run	Bankruptcy	Run	Bankruptcy	Run
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Pre Political	-0.327*** (0.038)	-0.312*** (0.038)	-0.286*** (0.038)	-0.098** (0.042)	-1.049*** (0.081)	-0.076* (0.043)	-1.054*** (0.081)	-0.055 (0.043)	-1.016*** (0.081)
Post Political	0.290*** (0.034)	0.367*** (0.034)	0.403*** (0.035)	0.393*** (0.041)	0.062 (0.061)	0.487*** (0.040)	0.087 (0.060)	0.516*** (0.041)	0.144** (0.060)
Size		-0.064*** (0.006)	-0.029*** (0.006)			-0.067*** (0.006)	-0.057*** (0.009)	-0.039*** (0.007)	0.002 (0.010)
Custodian		-1.851*** (0.058)	-1.695*** (0.059)			-1.968*** (0.071)	-1.573*** (0.099)	-1.832*** (0.071)	-1.345*** (0.104)
Guarantee		-0.443*** (0.048)	-0.257*** (0.051)			-0.324*** (0.053)	-0.810*** (0.084)	-0.174*** (0.056)	-0.539*** (0.088)
Listed		-0.710*** (0.160)	-0.628*** (0.156)			-0.424** (0.171)	-1.953*** (0.510)	-0.358** (0.167)	-1.841*** (0.505)
State		-0.448*** (0.151)	-0.482*** (0.158)			-0.555*** (0.188)	-0.183 (0.225)	-0.579*** (0.191)	-0.237 (0.238)
Financed		-0.108 (0.118)	-0.001 (0.111)			-0.503*** (0.159)	0.612*** (0.156)	-0.422*** (0.155)	0.802*** (0.153)
NIFAC		-0.709*** (0.236)	-0.768*** (0.247)			-1.061*** (0.290)	-0.105 (0.306)	-1.108*** (0.303)	-0.202 (0.309)
Executive	-1.160*** (0.039)		-0.652*** (0.046)	-1.059*** (0.043)	-1.435*** (0.060)			-0.515*** (0.051)	-1.050*** (0.072)
Audit	-1.693*** (0.163)		-0.615*** (0.159)	-1.931*** (0.221)	-1.118*** (0.287)			-0.744*** (0.212)	-0.346 (0.299)
Regulation	0.887*** (0.047)	0.897*** (0.046)	0.937*** (0.047)	1.031*** (0.056)	0.630*** (0.069)	1.050*** (0.056)	0.618*** (0.069)	1.085*** (0.057)	0.667*** (0.069)
PGDP	-0.004*** (0.001)	-0.000 (0.002)	0.000 (0.002)	-0.005*** (0.002)	-0.002 (0.002)	-0.001 (0.002)	-0.000 (0.002)	-0.000 (0.002)	0.000 (0.002)
Loan	-0.306*** (0.040)	-0.208*** (0.040)	-0.222*** (0.041)	-0.327*** (0.042)	-0.243*** (0.062)	-0.213*** (0.043)	-0.187*** (0.061)	-0.227*** (0.044)	-0.195*** (0.062)
No. of failures	5,357	5,357	5,357	3,835	1,522	3,835	1,522	3,835	1,522
Observations	147,499	147,499	147,499	147,499		147,499		147,499	
-Ln L	60580.01	59955.30	59740.92	60458.61		59808.95		59567.83	

This table presents the impact of political and financial determinants on platform failure. Panel A reports the Cox duration analysis results where we consider failure events as a whole and treat bankruptcy and run off as identical. Estimations of Competing Risk Models are shown in Panel B. In Panel B, bankruptcy and run off are set as the focal hazards in the even and odd columns, respectively. Specifications (1), (4), and (5) incorporate political variables, along with information disclosure and macroeconomic controls. Specifications (2), (6), and (7) control platform characteristics and macroeconomic variables. The full set of control variables are included in the specifications (3), (8), and (9). Coefficients are reported along with standard errors clustered at platform level in parenthesis. *, **, *** denote significance at the 10%, 5% and 1% level, respectively. Variable definitions are presented in Appendix A.

Note that only a proportion of platforms disclose information about their shareholders and executives. The availability or absence thereof of such information allows us to draw additional conclusions on how the platform-owning firm is governed. We thus extend our specifications by including executive-level variables, e.g. *Bank*, *Technology* and *Education*. Shareholding structure measured

by the concentration of shareholding percentage of the *Largest* shareholder, and the difference in shareholding percentage between the largest and the second-largest shareholder, which is denoted as *Counter*.

Table 4 reports the estimation results. The sample size varies with the data availability. Consistently, our main finding that a platform's failure hazards for all types of failures are lower before a major political event and higher afterwards still holds in all specifications as indicated by the significantly negative (positive) coefficients of the *Pre Political* (*Post Political*) variable. We also find positive effects of *Post Political* on *bankruptcy* and *run off* failures while finding a negative effect of *Pre Political* on *run off* failures.

Table 4 Extensions of platform governance

	(a) Cox			(b) CRM					
	Failure			Bankruptcy	Run	Bankruptcy	Run	Bankruptcy	Run
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Pre Political	-0.355*** (0.060)	-0.371*** (0.075)	-0.367*** (0.076)	-0.138** (0.066)	-1.358*** (0.152)	-0.091 (0.084)	-1.395*** (0.182)	-0.084 (0.085)	-1.396*** (0.184)
Post Political	0.628*** (0.050)	0.658*** (0.062)	0.654*** (0.063)	0.661*** (0.058)	0.528*** (0.092)	0.764*** (0.074)	0.426*** (0.100)	0.756*** (0.075)	0.435*** (0.100)
Bank	-0.194*** (0.067)			-0.189*** (0.073)	-0.206* (0.117)				
Tech	-0.092 (0.071)			-0.137* (0.079)	0.063 (0.119)				
Education	-0.219*** (0.059)			-0.170*** (0.064)	-0.396*** (0.104)				
Largest		0.586*** (0.153)				0.388** (0.159)	1.086*** (0.248)		
Counter			0.274*** (0.100)					0.195* (0.106)	0.468*** (0.166)
Platform Characters	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Info Disclosure	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Regional Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of failures	2,246	1,587	1,542	1,744	502	1,135	452	1,098	444
Observations	94,261	66,509	63,514	94,261		66,509		63,514	
-Ln L	23708.18	16129.56	15622.43	23639.18		16031.86		15529.41	

This table includes platform governance variables in the baseline models. Panel A reports the Cox duration analysis results where we consider failure events as a whole and treat bankruptcy and run off as identical. Estimations of Competing Risk Models are shown in Panel B. In panel B, bankruptcy and run off are set as the focal hazards in the even and odd columns, respectively. Coefficients are reported along with standard errors clustered at platform level in parenthesis. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively. Variable definitions are presented in Appendix A.

Interestingly, *Bank* and *Education* are significantly negatively correlated with the likelihood of platform failures. A possible explanation is that highly educated executives with a background in banking management manage lending risks more professionally. In addition, inferior corporate governance appears to be associated with more platform failures. The variables *Largest* and *Counter* are

positively correlated with platform failures, and are statistically significant at the 1% confidence level. The positive relationship primarily is due to the increase in *run off* failures.

The estimates of other control variables are qualitatively unchanged across several of our specifications. We indicate which controls are included in each specification, but do not report the estimation results to conserve space.

4.2 The influence of political connections

We now investigate how political connections affect the impact of political events on platform failures. At the regional level, provinces where Politburo members have served as either governor or provincial party secretary have stronger ties with the central government. Leaders in such provinces enjoy a higher likelihood of promotion. To preserve this benefit, local government officials have a strong incentive to intervene in a platform failure around critical events. Under these conditions, the influence of political forces – especially for platforms operating in such provinces – should be more profound. With this in mind, we use a dummy variable, *Ties*, to indicate whether a given platform operates in provinces that maintain close ties with the central government. Where it does, we observe how it interacts with political variables.

Among the subsample of platforms that disclose their executives' information, we obtain a profile of the working experience for each executive. For each platform, we trace the executive's government working experience by examining whether he or she is or was an officer of the central government or a local government.²⁵ Platforms under government ownership or those hiring executives with government working experience are deemed *Politically Connected (PC)*. While politically connected platforms may receive more support from the government than the less connected, they also are expected to reciprocate by helping patron politicians in achieving their political goals (He et al., 2020). We also observe how our *PC* variable interacts with political factors to see if politically connected platforms are more sensitive to political events than platforms without connections.

²⁵ For platforms that disclose executive information, we identify their government experiences searching for keyword "government" in their self-reported working background. Note that there are no regulations or restrictions to make executive information publicly available. However, as with many financial innovations, the development of P2P platforms carries with it substantial uncertainties and risk. A platform's creditworthiness is crucial to investors in choosing a reliable platform. Li et al. (2020) show that platforms with higher creditworthiness attract more lenders and perform better. Jiang et al. (2019) find that platforms advertise prominently on their websites that they have the government's blessing, indicating that the government has permitted the opening of this particular P2P platform in some sort of endorsement of their creditworthiness. In such case, platforms have a heightened incentive to disclose the government experience of their executives, as well as certify their values to potential customers.

Admittedly, such voluntarily disclosed information is probably imperfect. We thus conduct additional tests on the impact of political connections. First, we use a broader definition of public sector work experience, which includes not only work history at government agencies (including the military) but also service as a representative of the People's Congress or a member of the People's Political Consultative Conference. Second, to account for selection bias of reporting, we employ the Heckman two-step treatment effects procedure. Our primary results remain qualitative unchanged. These results are not reported, but available upon request.

Panel A of Table 5 describes the failures of platforms with and without political connections. More bankruptcies and run offs are observed in provinces with central-local ties. Political connection data are only available for a subsample of platforms, and the failures among platforms with political connections only account for a small proportion of the total record. Consistent with the findings of Jiang et al. (2019), platforms affiliated with government have higher survival probabilities, indicating that government involvement can increase a platform's creditworthiness.²⁶ The regression results are presented in Panel B of Table 5. Columns (1), (3), and (4) report the full sample results focusing on the effects of political ties across provinces. Columns (2), (5), and (6) use the subsample and reveal the impact of political connections.

We observe negative coefficients of *Ties* and *PC* on the platform failure rate and *bankruptcy* hazards, indicating that political ties and connections help platforms guard against default risk.

Interestingly, we find negative coefficients of the interactions between *Ties* and *Pre Political* on the platform failure rate and *run off* hazard rate, indicating that platforms with political ties experience a greater reduction in failure rates, particularly *run off* rates in advance of these events. Quantitatively, among platforms registered in provinces with political ties, the run off failure hazard is lower by 73.0% before political events. A possible explanation as to why we find no similar relationship for firms with political connections is that political ties are more relevant to a local politician's promotion. Politicians with such ties have a greater incentive to avoid platform failures (*run off*) than those without ties. In contrast, a platform's political connection through state-ownership or executives with government experience does not adequately capture the chance of promotion. Although platforms with political connections garner various benefits from local governments, politicians are unlikely to treat such platforms favorably. Instead, local politicians prefer to avoid any type of platform failure in advance of a major political event.

Table 5 Political connection

Panel A: Political connection

	Bankruptcy	Run
Tie	2652	1120
No Tie	1183	402
PC	101	38
No PC	1643	464

²⁶ Jiang et al. (2019) examine how investors select P2P lending platforms in China. They find that government affiliation is an important signal of the platform's trustworthiness as it provides a perception of government protection against defaults.

Panel B: Regression analysis

	(a) Cox		(b) CRM			
	Failure		Bankruptcy	Run	Bankruptcy	Run
	(1)	(2)	(3)	(4)	(5)	(6)
Ties*Pre political	-0.130 (0.086)		0.036 (0.096)	-0.789*** (0.165)		
Tie*Post political	0.176** (0.079)		0.066 (0.091)	0.631*** (0.148)		
PC*Pre political		0.273 (0.263)			0.356 (0.305)	0.480 (0.530)
PC*Post political		0.474** (0.225)			0.627** (0.271)	0.141 (0.378)
Ties	-0.060 (0.065)		-0.107 (0.073)	0.020 (0.093)		
PC		-0.405* (0.218)			-0.468* (0.255)	-0.375 (0.368)
Pre political	-0.199*** (0.075)	-0.358*** (0.061)	-0.084 (0.085)	-0.519*** (0.133)	-0.145** (0.067)	-1.384*** (0.159)
Post political	0.284*** (0.067)	0.607*** (0.051)	0.459*** (0.076)	-0.299** (0.130)	0.632*** (0.059)	0.533*** (0.095)
Platform characters	Yes	Yes	Yes	Yes	Yes	Yes
Info disclosure	Yes	Yes	Yes	Yes	Yes	Yes
Regional controls	Yes	Yes	Yes	Yes	Yes	Yes
No. of failures	5,357	2,246	3,835	1,522	1,744	502
Observations	147,499	94,261	147,499		94,261	
-Ln L	59732.92	23732.93	59535.29		23665.66	

Panel A summarizes platform failures in provinces with and without central-local political ties and failures by platforms with and without political connections. Panel B reveals how a province's political ties and a platform's political connections affect the impact of political incentive. Political ties are measure by *Ties*, a dummy variable that equals 1 if the platform is registered in a province where current politburo members have served as governor or party secretary, and 0 otherwise. *PC* indicates if the platform is government owned or hires executives who were currently or formerly officers of either the central government or a local government. The first two columns report the Cox duration analysis results where we consider failure events as a whole and treat bankruptcy and run off as identical. Estimations of Competing Risk Models are shown in columns (3) to (6), where bankruptcy and run off are set as the focal hazards in the odd and even columns, respectively. *Ties* and *PC* are interacted with political indicators. Coefficients are reported along with standard errors clustered at platform level in parenthesis. *, **, *** denote significance at the 10%, 5% and 1% level, respectively. Variable definitions are presented in Appendix A.

However, we find a significantly incremental increase in failure frequency after major political events for platforms with political ties or political connections. In this post-event window, platforms with political ties (political connections) faced a 58.4% (194.8%) higher failure hazard, whereas impact increases by around 0.78 (1.33) times for platforms without such a relationship. The post-event variation provides evidence consistent with the notion that political attributes tighten the linkage between a politician's personal political incentives and the patterns of platform failure. Thus, while a platform with political connections can garner economic benefits from the government, it is

subject to increased scrutiny and intervention by the local government.²⁷ Postponed platform failures still need to find an outlet as platform failure is ultimately unavoidable. Politicians with close central-local ties are more powerful, and are more incentivized to accelerate a platform failure when the costs of delay are no longer significant to them in the post-event period and the political connections of the platform matters less.

4.3 The role of financial conditions

Brown and Dinç (2011) show that the government is more likely to keep problematic banks in a state of forbearance when local financial and economic conditions are weak as closing troubled banks brings with it the heavy cost of financial cleanup. If our previous argument is correct, political incentive effects should be weaker for governments that run large budget deficits or face high unemployment rates.

When a local government is dealing with a high unemployment rate, it will be more cautious about closing failing platforms shortly after major political events precisely because of concerns about exacerbating unemployment stress. Furthermore, intervention in a platform failure demands that the local government be in a fairly strong fiscal position. For those regions running high fiscal deficits, even if the leaders have the desire to shut down platforms after major political events, they may not be able to afford it.

Empirically, we construct a dummy variable, *Unemployment*, which equals one if a platform is registered in a province with a rate of unemployment above the monthly median and zero otherwise. The local fiscal status is reflected by the variable *Fiscal Gap*, which indicates whether a platform is registered in a city with a fiscal deficit over GDP that exceeds the monthly median. We observe the interaction of both these proxies with political variables.

The regression results are presented in Table 6. The interaction terms between *Fiscal Gap* and *Post Political* are significantly negative across all specifications, suggesting that the influence of political forces is weakened when local fiscal conditions are weak. The average increase in failure hazard after major political events is 70.1% among platforms with fiscal deficits below the median. With a tighter fiscal deficit, the impact is more than halved, falling to 33.8%. Note that the increase in a platform's *run off* hazard only exists among the platforms in lower-deficit regions. Combining the coefficients of *Post Political* and its interaction term with *Fiscal Gap* in Column 4 gives a negative figure, indicating that platform run offs will not be accelerated in provinces with higher fiscal

²⁷ A downside of cultivating political connections is that they create pressure on the connected firm to align its interests with those of local politician. Rather than maximizing firm value, connected firms may find themselves pursuing government objectives or paying rent to politicians by rewarding their supporters with favors (see Frye and Shleifer, 1997; Shleifer and Vishny, 2002, and empirical evidence in China in Cheung et al., 2010; Chen et al., 2017; He et al., 2020). Thus, politically connected platforms are more likely to find themselves aligned with the personal agendas of local politicians and facing the risk of stricter regulation when politicians move to crack down on failing platforms.

deficits. Similarly, the interactions between *Unemployment* and *Post Political* are also negative, reflecting the way that poor economic conditions depress the effect of political intervention. The suppression of the impact on platform *run off* hazard is more pronounced as the interactions between *Unemployment* and *Pre* and *Post Political* conditions have significantly positive and negative coefficients, respectively.

Table 6 Political forces, fiscal gap, and economic conditions

	(a) Cox		(b) CRM			
	Failure		Bankruptcy	Run	Bankruptcy	Run
	(1)	(2)	(3)	(4)	(5)	(6)
Fiscal gap*Pre political	0.068 (0.074)		0.043 (0.083)	0.176 (0.157)		
Fiscal gap*Post political	-0.240*** (0.069)		-0.168** (0.082)	-0.456*** (0.126)		
Unemp*Pre political		-0.024 (0.074)			-0.081 (0.083)	0.314* (0.162)
Unemp*Post political		-0.274*** (0.069)			-0.180** (0.082)	-0.531*** (0.124)
Fiscal Gap	-0.045 (0.052)		-0.042 (0.059)	-0.049 (0.075)		
Unemployment		0.080 (0.058)			0.072 (0.066)	0.084 (0.085)
Pre Political	-0.316*** (0.053)	-0.268*** (0.056)	-0.073 (0.059)	-1.100*** (0.114)	-0.007 (0.062)	-1.192*** (0.127)
Post Political	0.531*** (0.049)	0.554*** (0.049)	0.608*** (0.058)	0.365*** (0.081)	0.617*** (0.059)	0.416*** (0.084)
Platform characters	Yes	Yes	Yes	Yes	Yes	Yes
Info disclosure	Yes	Yes	Yes	Yes	Yes	Yes
Regional controls	Yes	Yes	Yes	Yes	Yes	Yes
No. of failures	5,357	5,357	3,835	1,522	3,835	1,522
Observations	147,499	147,499	147,499		147,499	
-Ln L	59725.73	59731.60	59549.37		59551.26	

This table reveals how local fiscal gap and economic conditions affect the impact of political incentive. Fiscal gap is measure by a dummy variable equals 1 if a platform is registered in a city with above median fiscal gap over GDP in each month and 0 otherwise. Economic condition is measured by Unemployment, which indicates if a platform is registered in a province with above median unemployment rate in each month. Panel A reports the Cox duration analysis results where we consider failure events as a whole and treat bankruptcy and run off as identical. Estimations of Competing Risk Models are shown in Panel B. In panel B, bankruptcy and run off are set as the focal hazards in the odd and even columns, respectively. Within each panel, Fiscal Gap and unemployment are interacted with political indicators. Coefficients are reported along with standard errors clustered at platform level in parenthesis. *, **, *** denote significance at the 10%, 5% and 1% level, respectively. Variable definitions are presented in Appendix A.

5 Robustness

5.1 Alternative measures

To examine the robustness of our findings, we change the proxies of political forces by measuring our two major political events separately. In doing so, we separate our focal variables into *Pre Congress* and *Post Congress* categories as well as *Pre Promotion* and *Post Promotion* categories. The results presented in Panel A and B of Table 7 are very similar to those in our baseline models. In Panel C, we also recognize the 18th National Congress of the Chinese Communist Party held in November 2012 as a major political event, despite the scarcity of platform failure records around the pre- and post-event windows. Then, in Panel D and E, we separately include the event month (i.e. $t = 0$) into the post- and pre-event window, which allows us to examine whether changes in failure hazards during the event month affect our results.

Across all these alternative measures of political events in all the different panels, the main finding holds firm, i.e. platforms are faced with lower (higher) failure hazards before (after) major political events. We can therefore state that our empirical results are robust.

5.2 Alternative specifications

We also examine the robustness of our findings using alternative specifications. In Panel A of Table 8, we start by using the Fine and Gray (1999) model for the competing risk analysis, where the correlations between *bankruptcy* and *run off* are allowed. The estimated coefficients are quantitatively similar to those presented in the baseline models in Table 3. In Panel B, we replace the Cox model with a binary Logit model and a linear probability model where the dependent variable is a failure dummy equal to one if the platform fails. The CRM is changed into a multinomial Logit model with the left-hand-side variable a discrete indicator that equals 0, 1, or 2 if a platform is normal, has gone bankrupt, or has had its founders run off, respectively.

Both the Cox duration analysis and CRM focus on the conditional probabilities of failure, which already takes the months that have elapsed into consideration. This information, however, is not incorporated in the framework of Logit and linear probability analysis. Therefore, we further include the variable, *Span*, which measures the months that have elapsed since the establishment of a platform.

As was the case with the results for the baseline models, the coefficients of *Pre Political* (*Post Political*) are significantly negative (positive) across specifications, proving the impact of political forces documented in the baseline models to be quite robust. In columns 3 and 4, we observe significantly positive and negative coefficients of the variable *Span*, indicating that bankruptcy haz-

ard is positive-duration dependent and run hazard is negative-duration dependent. This result is consistent with the patterns documented in Figure 1 that platform run offs appear more frequently in the beginning period.

Table 7 Alternative measures

Panel A: National Congress of the Chinese Communist Party

	(a) Cox			(b) CRM					
	Failure			Bankruptcy	Run	Bankruptcy	Run	Bankruptcy	Run
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Pre Congress	-0.427*** (0.041)	-0.406*** (0.041)	-0.376*** (0.042)	-0.195*** (0.045)	-1.404*** (0.113)	-0.165*** (0.045)	-1.414*** (0.112)	-0.142*** (0.045)	-1.363*** (0.113)
Post Congress	0.385*** (0.033)	0.472*** (0.032)	0.516*** (0.033)	0.435*** (0.040)	0.262*** (0.063)	0.542*** (0.039)	0.284*** (0.061)	0.576*** (0.039)	0.358*** (0.062)
Platform Characters	No	Yes	Yes	No	No	Yes	Yes	Yes	Yes
Info Disclosure	Yes	No	Yes	Yes	Yes	No	No	Yes	Yes
Regional Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of failures	5,357	5,357	5,357	3,835	1,522	3,835	1,522	3,835	1,522
Observations	147,499	147,499	147,499	147,499		147,499		147,499	
-Ln L	60541.34	59912.71	59695.18	60420.29		59767.07		59523.41	

Panel B: Promotion of provincial leaders

	(a) Cox			(b) CRM					
	Failure			Bankruptcy	Run	Bankruptcy	Run	Bankruptcy	Run
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Pre Promotion	-0.266*** (0.045)	-0.281*** (0.045)	-0.285*** (0.045)	-0.118** (0.049)	-0.743*** (0.094)	-0.138*** (0.050)	-0.747*** (0.093)	-0.140*** (0.050)	-0.758*** (0.094)
Post Promotion	0.102** (0.047)	0.132*** (0.047)	0.133*** (0.047)	0.182*** (0.054)	-0.106 (0.089)	0.216*** (0.054)	-0.089 (0.089)	0.216*** (0.054)	-0.088 (0.089)
Platform Characters	No	Yes	Yes	No	No	Yes	Yes	Yes	Yes
Info Disclosure	Yes	No	Yes	Yes	Yes	No	No	Yes	Yes
Regional Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of failures	5,357	5,357	5,357	3,835	1,522	3,835	1,522	3,835	1,522
Observations	147,499	147,499	147,499	147,499		147,499		147,499	
-Ln L	60682.21	60077.39	59867.03	60600.49		59975.61		59735.29	

Panel C: 18th National Congress of the Chinese Communist Party included

	(a) Cox			(b) CRM					
	Failure			Bankruptcy	Run	Bankruptcy	Run	Bankruptcy	Run
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Pre political_18	-0.347*** (0.037)	-0.329*** (0.037)	-0.307*** (0.037)	-0.111*** (0.042)	-1.076*** (0.080)	-0.086** (0.042)	-1.078*** (0.080)	-0.068 (0.042)	-1.044*** (0.080)
Post political_18	0.265*** (0.033)	0.344*** (0.033)	0.375*** (0.033)	0.387*** (0.040)	-0.009 (0.059)	0.483*** (0.040)	0.023 (0.058)	0.508*** (0.040)	0.070 (0.058)
Platform characters	No	Yes	Yes	No	No	Yes	Yes	Yes	Yes
Info disclosure	Yes	No	Yes	Yes	Yes	No	No	Yes	Yes
Regional Controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of failures	5,357	5,357	5,357	3,835	1,522	3,835	1,522	3,835	1,522
Observations	147,499	147,499	147,499	147,499		147,499		147,499	
-Ln L	60579.57	59955.59	59742.66	60454.17		59804.64		59564.81	

Panel D: Event month in post-event window

	(a) Cox			(b) CRM					
	Failure			Bankruptcy	Run	Bankruptcy	Run	Bankruptcy	Run
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Pre political	-0.371*** (0.037)	-0.366*** (0.038)	-0.344*** (0.038)	-0.151*** (0.041)	-1.081*** (0.081)	-0.143*** (0.042)	-1.091*** (0.080)	-0.125*** (0.042)	-1.057*** (0.081)
Post political_0	0.122*** (0.021)	0.153*** (0.020)	0.171*** (0.020)	0.182*** (0.024)	-0.020 (0.038)	0.219*** (0.023)	-0.012 (0.037)	0.232*** (0.023)	0.017 (0.037)
Platform characters	No	Yes	Yes	No	No	Yes	Yes	Yes	Yes
Info disclosure	Yes	No	Yes	Yes	Yes	No	No	Yes	Yes
Regional controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of failures	5,357	5,357	5,357	3,835	1,522	3,835	1,522	3,835	1,522
Observations	147,499	147,499	147,499	147,499		147,499		147,499	
-Ln L	60598.94	59985.16	59775.85	60478.53		59840.85		59604.57	

Panel E: Event month in pre-event window

	(a) Cox			(b) CRM					
	Failure			Bankruptcy	Run	Bankruptcy	Run	Bankruptcy	Run
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Pre political_0	-0.225*** (0.025)	-0.217*** (0.026)	-0.205*** (0.025)	-0.075*** (0.027)	-0.779*** (0.061)	-0.065** (0.028)	-0.783*** (0.061)	-0.056** (0.027)	-0.756*** (0.061)
Post political	0.299*** (0.034)	0.374*** (0.033)	0.406*** (0.034)	0.391*** (0.040)	0.071 (0.060)	0.481*** (0.039)	0.097 (0.060)	0.505*** (0.039)	0.151** (0.060)
Platform characters	No	Yes	Yes	No	No	Yes	Yes	Yes	Yes
Info disclosure	Yes	No	Yes	Yes	Yes	No	No	Yes	Yes
Regional controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of failures	5,357	5,357	5,357	3,835	1,522	3,835	1,522	3,835	1,522
Observations	147,499	147,499	147,499	147,499		147,499		147,499	
-Ln L	60577.30	59951.81	59735.45	60451.99		59802.51		59559.68	

This table presents the estimation of baseline models using different measures of political events. Panels A and B measure political events by 19th National Congress of the Chinese Communist Party and promotion of provincial leaders separately. Panel C include the 18th National Congress of the Chinese Communist Party as a major political event. Panel D and E include the month that major political event takes place ($t=0$) in the post-event window and pre-event window, respectively. The rest of the model settings are identical to those of the baseline models in Table 3. Coefficients are reported along with standard errors clustered at platform level in parenthesis. *, **, *** denote significance at the 10%, 5% and 1% level, respectively. Variable definitions are presented in Appendix A.

Note that the national reform-guiding opinions on the sound development of internet finance were only introduced in July 2015 to regulate online lending policies. If we compare the monthly average number of failures that occur in the twelve months prior to this reform to the number that occur in the twelve months following this reform, we see platform failures are about 55% less likely in the months leading up to this national major than in the months following this reform (60.83 versus 136.17). To alleviate the concern that our results have been driven by this major reform, we exclude observations that fall into the 12 months window around this reform from our sample.²⁸ We re-estimate our main regression, and present the estimation results in Panel C of Table 8. Despite decreased significance of coefficients of post-political in some of the specifications. The main findings

²⁸ We thank Larisa Yarovaya for pointing this out to us.

that platforms are less (more) likely to fail before (after) major political events remain unchanged when we exclude sample period around the major reform. These results provide consistent evidence that the incentive of local politicians drive the transitory pattern of platform failures.

Table 8 Alternative specifications

Panel A: Fine and Gray (1999) method

	Bankruptcy	Run	Bankruptcy	Run	Bankruptcy	Run
	(1)	(2)	(3)	(4)	(5)	(6)
Pre political	-0.086** (0.042)	-1.046*** (0.081)	-0.062 (0.043)	-1.051*** (0.081)	-0.040 (0.043)	-1.013*** (0.081)
Post political	0.402*** (0.041)	0.063 (0.061)	0.497*** (0.040)	0.087 (0.060)	0.526*** (0.041)	0.143** (0.060)
Platform characters	No	No	Yes	Yes	Yes	Yes
Info disclosure	Yes	Yes	No	No	Yes	Yes
Regional controls	Yes	Yes	Yes	Yes	Yes	Yes
No. of failures	3,835	1,522	3,835	1,522	3,835	1,522
Observations	147,499	147,499	147,499	147,499	147,499	147,499
-Ln L	43365.34	17167.14	42732.24	17155.59	42636.12	17019.01

Panel B: LPM, logit, and multinomial logit

	LPM	Logit	Multinomial logit	
	Failure	Failure	Bankruptcy	Run
	(1)	(2)	(3)	(4)
Pre political	-0.007*** (0.001)	-0.175*** (0.037)	0.038 (0.042)	-0.854*** (0.083)
Post political	0.020*** (0.002)	0.580*** (0.036)	0.629*** (0.044)	0.496*** (0.064)
Span	-0.000 (0.000)	0.001 (0.001)	0.008*** (0.001)	-0.019*** (0.003)
Platform characters	Yes	Yes	Yes	Yes
Info disclosure	Yes	Yes	Yes	Yes
Regional controls	Yes	Yes	Yes	Yes
Constant	0.048*** (0.002)	-3.075*** (0.057)	-3.704*** (0.068)	-3.730*** (0.098)
Observations	147,500	147,500	147,500	
R-square	0.185	-	-	
Pseudo R-square	-	0.072	0.072	

Panel C: Excluding observations around the national major reform

	(a) Cox			(b) CRM					
	Failure			Bank- ruptcy	Run	Bank- ruptcy	Run	Bank- ruptcy	Run
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Pre political	-0.655*** (0.055)	-0.678*** (0.056)	-0.665*** (0.056)	-0.491*** (0.062)	-1.408*** (0.125)	-0.516*** (0.063)	-1.417*** (0.125)	-0.503*** (0.063)	-1.406*** (0.125)
Post political	0.064 (0.051)	0.093* (0.051)	0.122** (0.051)	0.069 (0.059)	0.048 (0.096)	0.105* (0.060)	0.061 (0.096)	0.132** (0.060)	0.093 (0.096)
Platform charac- ters	No	Yes	Yes	No	No	Yes	Yes	Yes	Yes
Info disclosure	Yes	No	Yes	Yes	Yes	No	No	Yes	Yes
Regional controls	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
No. of failures	2,994	2,994	2,994	2,370	624	2,370	624	2,370	624
Observations	78,105	78,105	78,105	78,105		78,105		78,105	
-Ln L	31567.20	31163.31	31045.76	31513.26		31071.73		30950.96	

This table presents the estimation of the baseline model using alternative specifications. In Panel A, we estimate the CRM using the Fine and Gray (1999) method, allowing the bankruptcy and run off hazard to be correlated. In Panel B, the Cox duration analysis is replaced by a liner probability model and a binary Logit model in specifications (1) and (2), where the dependent variable is a dummy equals 1 if a platform fails and 0 otherwise. The CRM is changed into a multinomial Logit estimation, where the dependent variable is a discrete indicator equals to 0,1, or 2 if a platform is normal, bankrupt or the owners have run off with the investor's money. Panel C estimates the baseline model using a subsample excluding all platform-month observations that falls within the one-year window around the major regulation reform of July 2015. Coefficients are reported along with standard errors clustered at platform level in parenthesis. *, **, *** denote significance at the 10%, 5%, and 1% level, respectively. Variable definitions are presented in Appendix A.

6 Discussion

The results thus far demonstrate that failure hazards of platforms are lower before major political events and higher afterwards. This pattern is driven by the regulatory interventions in failing platforms, reflecting the incentives of local politicians. In this section, we consider suggestive evidence on whether and how politicians affect regulatory actions on failing platforms.

China's decentralized regulatory framework allows local politicians discretion in regulatory enforcement of failing platforms. As implementation of the CBRC's written rules is actually in the hands of local governments, who also enjoy an information advantage relative to the CBRC, the local politician's "will" is important in determining the efficacy of a CBRC rule (Agarwal et al., 2014). In particular, overweighing local regulators, local politicians may be reluctant (willing) to take a tough stance on enforcing CBRC regulations governing P2P platforms before (after) major political events.

To shed a light on this issue, we examine the flow of local government policies on regulating P2P lending, and its impacts on platform failures around our political events. Documentation on how strictly regulatory policies are applied would provide compelling evidence that the transitory

patterns of platform failures are closely linked to a politician's stance on enforcing regulatory actions.

To perform this test, we gather a comprehensive data of the local government policies on regulating P2P lending from WDZJ over the period 2011 to 2018.²⁹ We situate those policies in different provinces manually, and construct a dummy variable, *Tight*, to indicate whether a local government implemented strict policies on regulatory enforcement within the past twelve months in a province, and zero otherwise. We use *Tight* to measure a politician's stance on regulatory enforcement, paying particular attention to the interaction terms between this dummy variable and our *Pre Political* and *Post Political* variables.

The results are reported in Table 9. Notably, a *Tight* stance raises the overall failure hazard by 12%, mainly driven by a 21.4% increase in bankruptcy hazard. More importantly, the interaction between regulatory *Tight* and *Post Political* is significantly positive across all specifications, suggesting that the acceleration of failures after major political events is more pronounced with the adoption of stricter regulatory policies. When local politicians tighten enforcement during the post-event window, the overall, bankruptcy, and run off hazards increase by 76.3%, 83.7%, and 57.6%, respectively.

These results are largely consistent with our political intervention arguments, and highlight the role of politicians' incentives in the implementation of platform regulation. Efficient regulation of P2P lending platforms should take the incentives of politicians carefully into account. Similarly, the same national regulation rule may not have the same successful rate across regions with different political attributes. The self-interest of local politicians (political incentives) determines the stance on enforcing regulatory actions, which leads to delayed corrective regulatory actions and additional market inefficiency.

More broadly, these findings further bolster the theory of government failure (Le Grand, 1991), which shows that government regulation often fails because of difficulties in obtaining necessary information and the regulator's self-interests. Our results suggest that political discretion, together with a lack of information transparency, may lead to that most undesirable outcome – regulatory failure.

²⁹ For example, Shanxi Local Financial Supervision and Administration announced in March 2018 that it was requiring all P2P lending platforms located in Shanxi to achieve compliance and get registered before the final day of the month. In February 2017, Guangdong Local Financial Supervision and Administration published its policy framework for P2P lending platforms on its website. Among other things, it noted that P2P lending platforms would be required to have paid-in capital of at least RMB 50 million by April 30 of that year.

Table 9 Political incentives and regulatory intervention

	(a) Cox		(b) CRM			
	Failure		Bankruptcy	Run	Bankruptcy	Run
	(1)	(2)	(3)	(4)	(5)	(6)
Tight	0.113*** (0.041)	-0.028 (0.054)	0.194*** (0.046)	-0.104 (0.068)	0.118* (0.063)	-0.289*** (0.085)
Pre political*Tight		0.010 (0.081)			-0.048 (0.091)	-0.197 (0.163)
Post political*Tight		0.689*** (0.090)			0.435*** (0.102)	1.281*** (0.179)
Pre political	-0.278*** (0.038)	-0.276*** (0.067)	-0.043 (0.042)	-1.025*** (0.082)	-0.006 (0.075)	-0.905*** (0.123)
Post political	0.398*** (0.035)	-0.122 (0.082)	0.505*** (0.041)	0.148** (0.060)	0.173* (0.091)	-0.826*** (0.164)
Platform characters	Yes	Yes	Yes	Yes	Yes	Yes
Info disclosure	Yes	Yes	Yes	Yes	Yes	Yes
Regional controls	Yes	Yes	Yes	Yes	Yes	Yes
No. of failures	5,357	5,357	3,835	1,522	3,835	1,522
Observations	147,499	147,499	147,499		147,499	
-Ln L	59735.35	59693.96	59554.84		59503.22	

This table investigates the impact of local government intervention in regulation enforcement on platform failures. The first two columns report the Cox duration analysis results where we consider failure events as a whole and treat bankruptcy and run off as identical. Estimations of Competing Risk Models are shown in columns (3) to (6), where bankruptcy and run off are set as the focal hazards in the even and odd columns, respectively. For each platform-month observation, *Tight* is a dummy variable which equals to 1 if local government implements stringent policies on regulatory enforcement in the past 12 months and 0 otherwise. Coefficients are reported along with standard errors clustered at platform level in parenthesis. *, **, *** denote significance at the 10%, 5% and 1% level, respectively. Variable definitions are presented in Appendix A.

7 Conclusion

Over the past decade, China's P2P lending industry experienced a wild takeoff and destructive decline. Only around 15% of the more than 6,000 platforms established over the period survive today. Investigating this unique phenomenon, which can only be observed in China, we classified platform failures into two categories: those that end in bankruptcy and those where the platform's owner runs off with the investors' money. We empirically showed that political and financial forces play vital roles in determining both types the failures of P2P lending platforms.

Specifically, we noted an asymmetric pattern of failure around major political events. While the likelihood of both types of failure hazard are lower prior to major political events, the bankruptcy hazard becomes much more prominent afterwards. These findings are consistent with the hypothesis that local politicians, based on their political concerns, intentionally delay platform failures in the lead up to critical events, and then acknowledge the risk when the political cost of

failure subsidies. We also observe that while more platform failures involving owners absconding with funds are suppressed in the lead-up to a major political event, the increase in failures after the event largely pertains to platform bankruptcies. The influence of political forces is more remarkable among provinces with central-local political ties and platforms with political connections.

We further found that the impact of a political intervention is affected by local financial conditions. The changes in failure hazards around political activities are weaker among cities with larger fiscal deficits and provinces with higher unemployment rates. Because intervening in a platform failure may be costly, local governments facing a wide fiscal gap or high unemployment wary of attempting such interventions.

Our suggestive evidence showed that the posture of local politicians toward P2P regulation well explains the transitory pattern of platform failures. Specifically, post-event increases in failure hazard approach 76.3% when officials take a tough stance on regulatory enforcement.

The study also provided insight into how financial factors influence the failure of P2P platforms. Consistent with the bank failure literature, having more capital, possession of third party guarantee, state ownership, and better information disclosure are all associated with a lower likelihood of failure. In addition, having a custodian bank or joining the industry association reduces failure hazards further. We also documented the mixed impact of access to external financing. While the additional capital makes a platform less vulnerable to bankruptcies, it gives some owners a strong incentive to take the money and run.

The results presented in this paper hold two valuable implications for public policy on P2P lending platform regulations. First, our results highlight the important role of political interference in platform regulation. Local regulators can implement national rules inconsistently due to differences in their political incentives. Thus, designing P2P regulations without proper emphasis on the self-interest of politicians and regulatory incentives is likely to be quite costly. One solution might be to introduce regulatory reforms that reduce regulatory discretion in platform regulation. Second, our results imply that the failures of platforms least (most) exposed to market (political) forces, e.g. platforms with strong political connections and platforms operating in regions with strong central-local political ties, are more sensitive to political incentives. As market forces demand transparency in emerging market countries like China, the regulation of P2P platforms should require a more transparent information environment. Market monitoring accompanied with transparent information can discipline the regulator's self-interest, thereby making policy commitments more credible. Information transparency also enhances the timely monitoring in the P2P industry so that prompt corrective actions can be taken as needed. This could include mandating progressive penalties against platforms as their financial conditions deteriorate. It would acknowledge platform failure is an efficient tool to ensure that bad platforms exit the market while pursuing healthy development of the P2P industry.

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Appendix A Variable definitions

Category	Variable	Definition
Political cycle	Pre political	Dummy variable that equals 1 if the observation falls within the event window $[-12, -1]$ and 0 otherwise, where $t=0$ is the time of political event (Piotroski et al., 2014).
	Post political	Dummy variable that equals 1 if the observation falls within the event window $[1, 12]$ and does not fall within any event window $[-12, -1]$ and 0 otherwise, where $t=0$ is the time of political event.
	Pre congress	Dummy variable that equals 1 if the observation falls within the event window $[-12, -1]$ and 0 otherwise, where $t=0$ is the time of the 19th CPC National Congress and 0 otherwise.
	Post congress	Dummy variable equals 1 if the observation falls within the event window $[1, 12]$ and does not fall within any event window $[-12, -1]$ and 0 otherwise, where $t=0$ is the time of the 19th CPC National Congress and 0 otherwise.
	Pre promotion	Dummy variable that equals 1 if the observation falls within the event window $[-12, -1]$ and 0 otherwise, where $t=0$ is the time of the promotion of provincial leader and 0 otherwise.
	Post promotion	Dummy variable equals 1 if the observation falls within the event window $[1, 12]$ and does not fall within any event window $[-12, -1]$ and 0 otherwise, where $t=0$ is the time of the promotion of provincial leader and 0 otherwise/
Platform characteristics	Size	The logarithm of the platform's paid-in capital (in ten thousands).
	Custodian	Dummy variable equals 1 if the platform has a custodian bank and 0 otherwise.
	Guarantee	Dummy variable equals 1 if a third-party provides guarantee return to the lenders and 0 otherwise.
	Listed	Dummy variable equals 1 if the platform has listed firms as large shareholders and 0 otherwise.
	State	Dummy variable equals 1 if the controlling shareholder of the platform is the government or a government-related agency and 0 otherwise.
	Financed	Dummy variable equals 1 if the platform has received external finance and 0 otherwise. External finance includes equity financing of various sources, such as PE/VC, corporate venture capital, non-financial corporations, and individuals..
	NIFAC	Dummy variable equals 1 if the platform is a member of the National Internet Finance Association of China and 0 otherwise
Disclosure	Executive	Dummy variable equals 1 if the platform discloses information on its executives and 0 otherwise.
	Audit	Dummy variable equals 1 if the platform discloses its audit report and 0 otherwise.
Macro	Regulation	Dummy variable equals 1 if the observation occurs are the regulatory tightening of July 2015 and 0 otherwise.
	PGDP	Per capita GDP of the city where the platform is registered.
	Loan	Loan-to-GDP ratio of the city where the platform is registered.
Governance	Bank	Dummy variable equals 1 if the CEO, chairman, or founder of the platform has banking background and 0 otherwise.
	Tech	Dummy variable equals 1 if the CEO, chairman, or founder has a technology background and 0 otherwise.
	Education	Dummy variable equals 1 if the CEO, chairman, or founder has a college or MBA degree, and 0 otherwise.
	Largest	Shareholding percentage of the largest shareholder.
	Counter	Difference of shareholding percentage between the largest and the second-largest shareholder.
Extension	Fiscal Gap	Dummy variable equals 1 if the platform is located in a city with above-median fiscal gap and 0 otherwise.
	Unemployment	Dummy variable equals 1 if the platform is registered in a province with above- median unemployment rate and 0 otherwise.
	Tight	Dummy variable equals 1 if the local government has implemented stringent policies on regulatory enforcement during the past 12 months and 0 otherwise.
Political connection	Ties	Dummy variable equals 1 if the platform operates in provinces with close ties to the central government and 0 otherwise.
	PC	Dummy variable equals 1 if the platform is government owned or hires executives who are currently or formerly officers of either the central government or a local government, and 0 otherwise.
Alternative measures	Pre political_18	Dummy variable equals 1 if the observation falls within the event window $[-12, -1]$ and 0 otherwise, where $t=0$ is the time of political event. The 18th National Congress of the Chinese Communist Party is also recognized as a major political event.
	Post political_18	Dummy variable equals to 1 if the observation falls within the event window $[1, 12]$ and does not fall in any event window $[-12, -1]$ and 0 otherwise, where $t=0$ is the time of political event. The 18th National Congress of the Chinese Communist Party is also recognized as a major political event
	Pre political_0	Dummy variable equals 1 if the observation falls in the event window $[-12, 0]$ and 0 otherwise, where $t=0$ is the time of political event.
	Post political_0	Dummy variable equals 1 if the observation falls within the event window $[0, 12]$ and does not fall within any event window $[-12, -1]$ and 0 otherwise, where $t=0$ is the time of political event.

Appendix B Correlation of variables

	[1]	[2]	[3]	[4]	[5]	[6]	[7]	[8]	[9]	[10]	[11]	[12]	[13]	[14]	[15]	[16]	[17]	[18]	[19]	[20]	[21]	[22]	[23]	[24]	
[1] Pre political	1.000																								
[2] Post political	-0.316	1.000																							
[3] Pre promotion	0.688	-0.217	1.000																						
[4] Post promotion	-0.219	0.692	-0.150	1.000																					
[5] Pre congress	0.773	-0.244	0.251	-0.169	1.000																				
[6] Post congress	-0.279	0.883	-0.192	0.460	-0.216	1.000																			
[7] Size	0.038	0.081	-0.005	0.019	0.060	0.097	1.000																		
[8] Custodian	0.065	0.130	0.005	0.039	0.090	0.151	0.420	1.000																	
[9] Guarantee	0.030	0.040	-0.008	-0.006	0.040	0.047	0.252	0.159	1.000																
[10] Listed	0.010	0.022	-0.006	0.002	0.016	0.024	0.110	0.172	0.022	1.000															
[11] State	0.017	0.028	-0.006	0.005	0.024	0.032	0.101	0.116	0.093	-0.005	1.000														
[12] Financed	0.044	0.069	0.023	0.038	0.057	0.090	0.142	0.254	0.083	0.122	-0.013	1.000													
[13] NIFAC	0.050	0.074	0.033	0.048	0.059	0.093	0.108	0.184	0.022	0.122	0.022	0.172	1.000												
[14] Executive	0.060	0.091	-0.001	0.016	0.085	0.116	0.470	0.364	0.308	0.101	0.053	0.145	0.072	1.000											
[15] Audit	0.011	0.037	-0.005	0.009	0.018	0.040	0.173	0.267	0.093	0.049	0.053	0.069	0.056	0.139	1.000										
[16] Regulation	0.307	0.167	0.167	0.042	0.301	0.255	0.076	0.133	0.076	0.014	0.037	0.097	0.087	0.124	0.025	1.000									
[17] PGDP	-0.060	0.026	-0.150	-0.064	0.048	0.064	0.163	0.127	0.084	0.077	0.001	0.076	0.045	0.109	0.029	0.071	1.000								
[18] Loan	0.093	0.060	0.103	0.064	0.067	0.073	0.059	0.086	0.037	0.032	0.003	0.055	0.043	0.047	0.024	0.116	0.049	1.000							
[19] Bank	-0.016	-0.001	-0.029	-0.024	0.000	0.010	0.026	0.107	0.025	0.007	0.003	0.071	0.105	.	0.032	0.004	0.081	0.032	1.000						
[20] Tech	-0.003	0.018	-0.005	0.014	0.003	0.013	0.032	0.098	0.027	0.050	0.027	0.103	0.053	.	0.023	0.005	0.027	0.060	0.053	1.000					
[21] Education	-0.016	0.004	-0.020	-0.005	0.000	0.001	0.049	0.124	0.017	0.059	0.005	0.088	0.061	.	0.014	-0.007	0.086	0.078	0.197	0.238	1.000				
[22] Largest	-0.007	-0.002	-0.007	0.012	0.008	0.009	-0.072	-0.118	-0.028	-0.081	-0.039	-0.112	-0.065	-0.096	-0.026	0.023	0.050	-0.064	-0.048	-0.030	-0.160	1.000			
[23] Counter	-0.016	-0.003	-0.011	0.017	0.000	0.005	-0.027	-0.058	-0.042	-0.033	-0.049	-0.074	-0.031	-0.086	0.006	-0.001	0.051	-0.027	-0.017	-0.018	-0.117	0.948	1.000		
[24] Ties	-0.005	-0.116	0.017	-0.024	0.052	-0.096	0.042	0.023	-0.014	0.034	-0.054	0.039	0.011	0.008	0.018	-0.010	0.377	0.033	0.038	0.024	0.021	0.084	0.104	1.000	
[25] PC	0.011	0.018	0.001	0.009	0.012	0.014	0.064	0.074	0.042	-0.024	0.642	0.017	-0.003	.	0.035	0.016	-0.011	-0.009	0.045	0.078	0.068	-0.052	-0.050	-0.025	

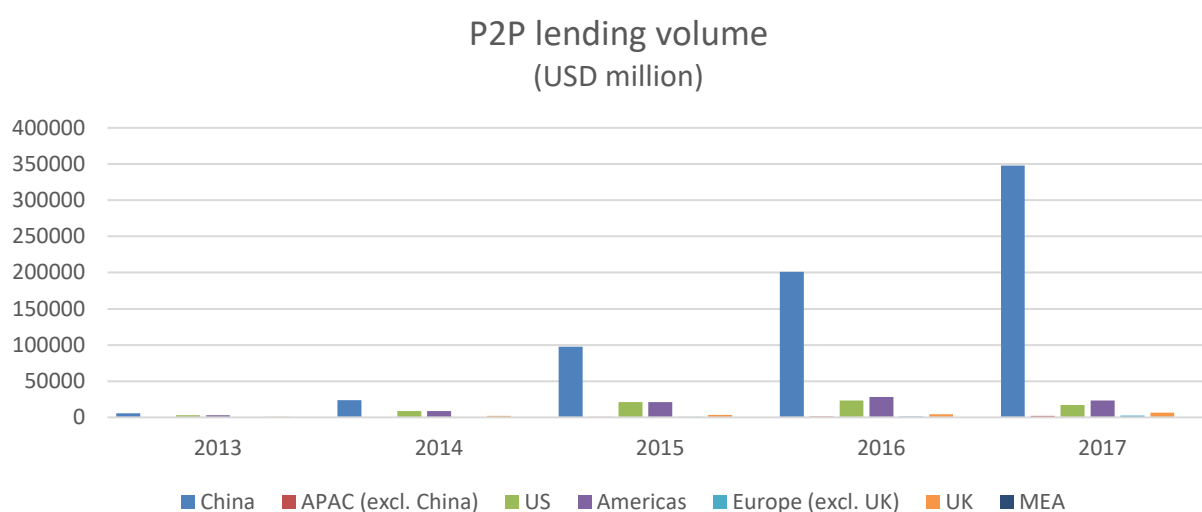
Internet appendix A Univariate tests (full)

	(a) Normal						(b) Bankruptcy							(c) Run							
	N	Mean	SD	Min	Median	Max	N	Mean	SD	Min	Median	Max	(a)-(b)	N	Mean	SD	Min	Median	Max	(a)-(c)	(b)-(c)
Size	142142	3.538	3.946	0.000	0.000	12.780	3835	2.050	3.381	0.000	0.000	12.780	1.488***	1522	1.997	3.405	0.000	0.000	11.700	1.541***	0.053
Custodian	142142	0.291	0.454	0.000	0.000	1.000	3835	0.057	0.232	0.000	0.000	1.000	0.234***	1522	0.076	0.265	0.000	0.000	1.000	0.215***	-0.019***
Guarantee	142142	0.262	0.440	0.000	0.000	1.000	3835	0.178	0.382	0.000	0.000	1.000	0.084***	1522	0.114	0.318	0.000	0.000	1.000	0.148***	0.064***
Listed	142142	0.030	0.170	0.000	0.000	1.000	3835	0.010	0.099	0.000	0.000	1.000	0.020***	1522	0.003	0.051	0.000	0.000	1.000	0.027***	0.007***
State	142142	0.028	0.164	0.000	0.000	1.000	3835	0.011	0.104	0.000	0.000	1.000	0.017***	1522	0.013	0.114	0.000	0.000	1.000	0.015***	-0.002
Financed	142142	0.045	0.207	0.000	0.000	1.000	3835	0.013	0.115	0.000	0.000	1.000	0.032***	1522	0.032	0.175	0.000	0.000	1.000	0.013**	-0.018***
NIFAC	142142	0.021	0.145	0.000	0.000	1.000	3835	0.004	0.062	0.000	0.000	1.000	0.017***	1522	0.009	0.096	0.000	0.000	1.000	0.012***	-0.005**
Executive	142142	0.649	0.477	0.000	1.000	1.000	3835	0.457	0.498	0.000	0.000	1.000	0.192***	1522	0.331	0.471	0.000	0.000	1.000	0.318***	0.126***
Audit	142142	0.036	0.185	0.000	0.000	1.000	3835	0.005	0.068	0.000	0.000	1.000	0.031***	1522	0.007	0.085	0.000	0.000	1.000	0.028***	-0.003
Regulation	142142	0.734	0.442	0.000	1.000	1.000	3835	0.867	0.340	0.000	1.000	1.000	-0.133***	1522	0.763	0.425	0.000	1.000	1.000	-0.029**	0.104***
PGDP	142142	17.880	13.860	0.149	15.370	50.630	3835	16.530	13.150	1.216	14.280	50.630	1.350***	1522	16.790	13.980	1.416	14.700	50.630	1.090***	-0.260
Loan	142142	1.717	0.965	0.086	1.841	90.160	3835	1.651	0.553	0.310	1.804	3.711	0.066***	1522	1.612	0.590	0.215	1.775	7.450	0.105***	0.039**
Bank	92015	0.284	0.451	0.000	0.000	1.000	1744	0.226	0.418	0.000	0.000	1.000	0.058***	502	0.227	0.419	0.000	0.000	1.000	0.057***	-0.001
Tech	92015	0.239	0.426	0.000	0.000	1.000	1744	0.185	0.388	0.000	0.000	1.000	0.054***	502	0.217	0.413	0.000	0.000	1.000	0.022	-0.032
Education	92015	0.514	0.500	0.000	1.000	1.000	1744	0.437	0.496	0.000	0.000	1.000	0.077***	502	0.406	0.492	0.000	0.000	1.000	0.108***	0.031
Largest	64922	0.704	0.262	0.008	0.700	1.000	1135	0.750	0.245	0.008	0.800	1.000	-0.046***	452	0.801	0.225	0.033	0.900	1.000	-0.097***	-0.051***
Counter	61972	0.543	0.380	0.000	0.507	1.000	1098	0.590	0.386	0.000	0.650	1.000	-0.047***	444	0.656	0.383	0.000	0.800	1.000	-0.113***	-0.066***
Ties	142142	0.740	0.439	0.000	1.000	1.000	3835	0.692	0.462	0.000	1.000	1.000	0.048***	1522	0.736	0.441	0.000	1.000	1.000	0.004	-0.044***
PC	92015	0.078	0.268	0.000	0.000	1.000	1744	0.058	0.234	0.000	0.000	1.000	0.020***	502	0.076	0.265	0.000	0.000	1.000	0.002	-0.018
Fiscal Gap	142142	0.516	0.500	0.000	1.000	1.000	3835	0.492	0.500	0.000	0.000	1.000	0.024***	1522	0.470	0.499	0.000	0.000	1.000	0.046***	0.022
Unemployment	142142	0.501	0.500	0.000	1.000	1.000	3835	0.557	0.497	0.000	1.000	1.000	-0.056***	1522	0.570	0.495	0.000	1.000	1.000	-0.069***	-0.013

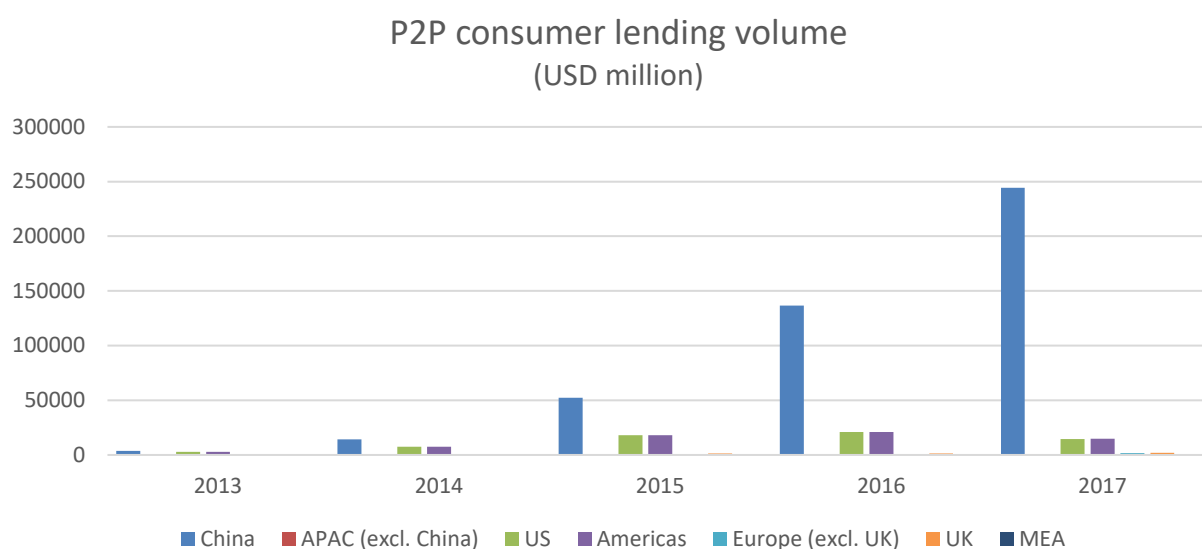
Internet appendix B P2P lending volume by type and region

The following four panels plot P2P lending volumes by types worldwide from 2013 to 2017. The data are decomposed into China, APAC countries excluding China, the US, Americas, the UK, European countries excluding UK, as well as the Middle East and Africa. The data have been collected from CCAF reports from various years and regions.

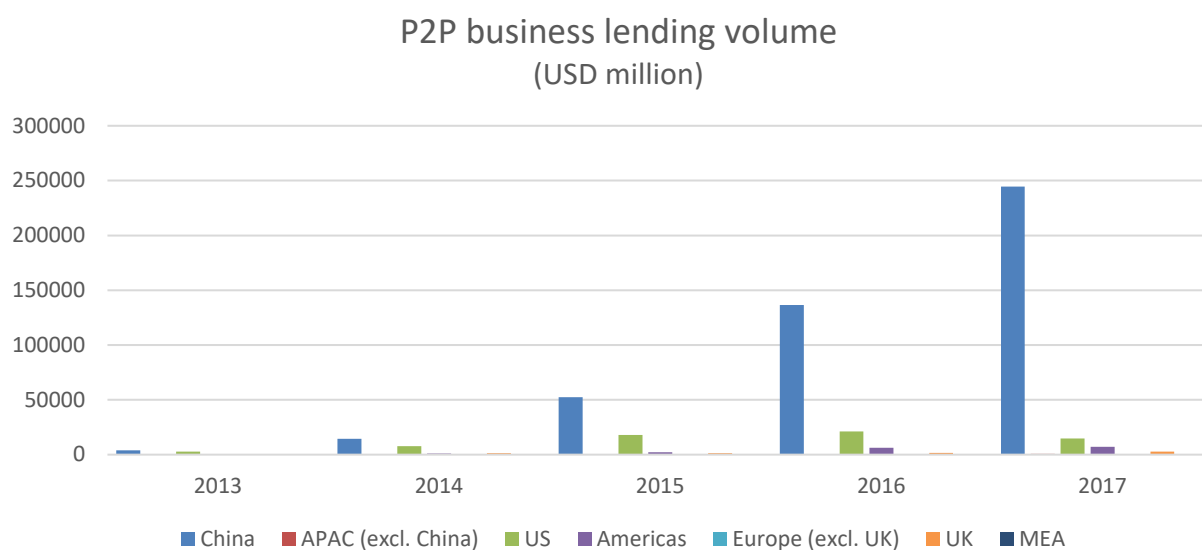
Panel A: P2P lending volume (total)



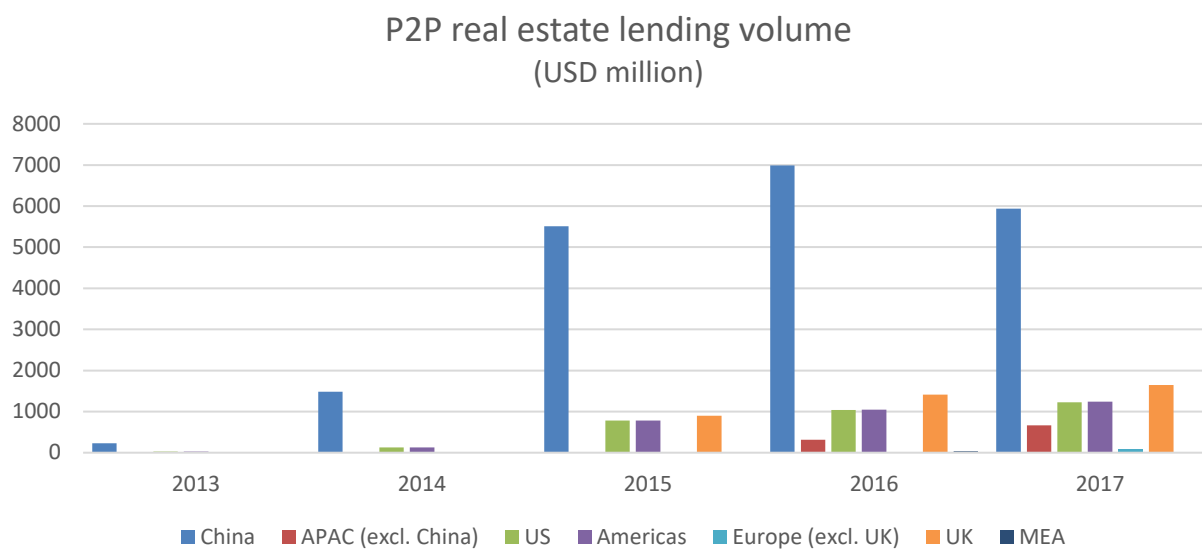
Panel B: P2P consumer lending volume



Panel C: P2P business lending volume



Panel D: P2P real estate lending volume



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